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BUILT-IN Pressures to Inflation

CLARENCE B. CARSON

ALL THE OBLIGATIONS of the United States government, both actual and potential, stand today as pressures toward inflation. They are like a vast sea lapping at, thrusting against, and threatening to crash through the defenses built against it by a succession of casually thrown up dikes. Indeed, the momentum lies with inflation, and the pressures mount with each new obligation undertaken and every old obligation that comes to maturity.

Inflation is used in two somewhat distinct ways today. It is used by some economic thinkers to refer to the increase of the money supply. Popularly, it is used to refer to general rises in prices. If it be understood that the increase of the money supply is the cause of the general price rise, much of the objection to the second usage is removed. Not all of it, however. There would still be an unmeasurable phenomenon with no name and no way to identify it if inflation could apply only to general rises in prices. The reason is this: It is possible to have increases in the money supply accompanied by no general price increases. Indeed, it is conceivable that over some period of time increases in the money supply might be accompanied by a slight decline in prices. There may be a variety of reasons for such effects. The additional money might have gone into savings. There may have been productivity increases which

Dr. Carson has written and taught extensively, specializing in American intellectual history. His most recent book, *The Rebirth of Liberty: The Founding of the American Republic 1760-1800* is now available in a 350-page attractive Bicentennial paperback at $3.00 from *The Foundation for Economic Education*, Irvington-on-Hudson, N.Y. 10533.

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offset the increases in the money supply. (In which case, prices would have fallen, or fallen more than they did, had the money supply not been increased.) In any case, if inflation refers only to increases in prices, it will only be noted when prices actually increase. More importantly, if inflation refers only to price increases, it may be, and frequently is, separated from its basic cause—increases of the money supply by government. For these reasons, inflation is used here to refer to increases in the money supply.

A Form of Taxation

The effect of inflation, whether it results in a measurable increase in prices or not, is that it levies a tax on all who have money or have it owed to them. It reduces the value of the currency, and the amount of that reduction is used by government to pay its bills. In the United States today, the government inflates by monetizing debt, its own debt directly and other debt more indirectly. The only limits to the money supply are arbitrary reserve requirements on banks and changing debt limits set by Congress. These are the thin and flexible dikes holding back the onrushing sea of inflation.

What are these pressures to inflation? The most obvious one, of course, is the national debt. It has now reached or passed $600 billion. The debt presses us toward inflation in two ways. One is by way of paying the interest on it. The annual interest on the debt is now in the $30-40 billion rate, and has lately been rising more rapidly in proportion than the national debt. The interest must be paid from taxes or by inflation. An even stronger pressure to inflation is the continual refinancing of portions of the debt. The debt is not being retired but it is being continually paid off and renewed as bonds and other securities mature or are cashed by their holders. This is inflationary to the extent that the refinancing is by way of monetizing the debt. In a similar fashion, any growth in the debt is likely to be inflationary.

But the national debt is only the best known and most obvious obligation of the United States government. It is actually only the exposed tip of the iceberg of obligations. Among these, the obligations under Social Security may be the next best well known. From time to time, calculations are made as to the extent of Social Security obligations. None of these need detain us, however, for they are only projections based on current payments, commitments, and longevity expectations. Since cost-of-living adjustments are now made regularly, Congress periodically adds new benefits, and the number covered is expanded, there is no way to calcu-

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late the amount of the obligation. Suffice it to say, the obligation is immense and the amount of it rapidly rising.

Social Security Deficits

Social Security is already beginning to exercise inflationary pressure. For most of its history it did not do so. Income into the program exceeded the payments out of it. A "fund" was being built up. More specifically, Social Security payments were helping to finance the national debt. Now, however, that has changed. Social Security is paying out more than it is taking in. The difference is being made up by the sale of government securities. For the time being, the result will not necessarily be any net increase in the debt, but it will bring on inflation to the extent that the debt is refinanced by monetizing it. This inflationary pressure will mount to the extent that the gap between intake and outgo widens. When and if the "fund" is exhausted, the pressure may be expected to be revealed, at least in part, in increases in the national debt.

One of the most direct, though least known, pressures to inflation is government obligations contracted by serving as guarantor of mortgages. The best known of these guarantees are the VA and FHA guarantees. The United States government guarantees up to 20 per cent of VA loans, a guarantee which enables veterans to buy houses with no down payment, if they can otherwise meet the requirements of a lender. The FHA insures loans on which the house buyer may make as little as a 5 per cent down payment. There are a considerable variety of other government guarantee programs in real estate, but enough has been told to show the principle of guarantee underlying and making the government obligations.

Such guarantees as these tilt government toward inflationary policies. It is generally claimed that VA and FHA loans have been successful in that losses have been small. There is not much mystery as to why this should have been so. Impractical programs have been saved from their predictable consequences by long-term inflation. It has worked in two ways to do this. One is that wages have generally risen over the years, making it easier for the mortgagor to make his payments. The other is that any house tolerably well taken care of over the last twenty or thirty years has appreciated in dollar value, other things being equal. This has meant that the owner could usually sell it for more than was owed on it, however much that might be, or, if foreclosure did take place, the amount of the mortgaged indebtedness would probably be recovered. The real guarantor of the

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mortgages, then, has usually been inflation.

It might be supposed that the government obligations on mortgages are limited to the extent of the guarantees. This is only superficially the case, however. Government obligations extend to cover a large portion of the mortgaged indebtedness in the United States. They do so because the Federal government guarantees most of the deposits in banks and savings institutions by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation. In turn, mortgages constitute a large portion of the assets of banks and savings institutions. It is reasonable to suppose, then, that if governments had to pay off depositors and savers they would, in effect, be making good on these loans. Continuing inflation enables banks to operate with relatively small reserves, particularly when the very mode of inflation is the monetizing of debt.

Government Guarantees

The total obligations of the United States government include both formal and tacit or informal obligations. The government underwrites more kinds of undertakings than the present writer knows or could describe if he did. A vast assortment of projects proceed on the basis of such underwritten guarantees. Beyond these, the government has thus far shown a willingness to shore up any failing business, city, or government. The loans to Lockheed, the aid to eastern railroads, the subsidizing of AMTRAK, illustrate the government's role in business. The recent bailing out of New York City shows the possibilities of government action in the area of local government.

How can the federal government act as guarantor for and come to the rescue of all these people and institutions? Is it because the federal government is so well managed and has so many resources upon which to call? Not basically. The federal government's finances have been no better managed, if anything they have been worse managed, than Lockheed or Penn Central or New York City. It is sometimes alleged that the federal government is an efficient taxer and has a much better base for taxes than state or local governments. This may or may not be true, in theory, but in fact for many years running now it has spent more than it has taken in by way of taxes. In short, the claim if correct is nonetheless irrelevant. The *difference* between the federal government and these private businesses and other governments *lies* in the *power to inflate,* the power to increase the

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money supply by monetizing its debt. The vast obligations of the federal government are "secured" by the debt itself. These obligations are the potential of mounting waves which could destroy our money supply even as they wiped out the indebtedness.

Political Pressures

There are other pressures to inflation than those that arise directly from obligations of the government. They are what may be called *political* pressures. Some of these pressures evince themselves in the desire of politicians to spend while avoiding the onus of taxing to get the money, or all of it. There is a *multiplier* effect to this kind of government spending, though not in the sense in which some economists use the word. By raising less by taxes than is spent, by making up the difference with fiat, i.e., printing press, money, the government puts more into circulation than it takes out. The initial impact of this additional money, if it is not entirely discounted, is to spur investment and all sorts of risk taking. An aura of prosperity quite often accompanies the spurts of new money. In the long run, whatever time it takes for the untoward effects of inflation to take place, the aura of prosperity dissipates as prices rise, wages lag, and malinvestments induced by false signals sent into the market produce their inevitable crop of failures. The long runs grow shorter and shorter, too, with successive spurts of inflation, for people come more and more to expect that the aura of prosperity is only an aura. The stock market, for example, can remain bearish through a whole series of spurts of inflation.

There are, then, two rather direct political pressures to inflation. One is for politicians to be able to spend and avoid the responsibility for new taxes. The other is to create the aura of prosperity at crucial times. Presidents have come to depend on this inflation-induced aura of prosperity in the months just before a presidential election. If the President is a candidate himself, he will press to do it in his own behalf. If not, he may be expected to try to do it on behalf of his party. It might be supposed that the members of Congress of the party out of power would want to thwart this effort, but it does not follow. Their reelection may be dependent also upon the appearance of prosperity. It may well be that the greatest danger of a runaway inflation arises from the political necessity for prosperity in an election year when it is coupled with mounting popular resistance to accept the false signals sent into the market by inflation. The pressure is there to pour more and more money into circula-

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tion to achieve the desired result. This tide of inflation could knock sufficient holes in the dikes to allow the whole sea of claims on government to sweep through and destroy the money.

Hikes in Minimum Wage

Congress and the President reap political gains in yet another way that depends on inflation. They periodically raise the minimum wage, increase the pay of government employees, give raises to those on pensions, such as retired military personnel, and so forth. Not only is inflation sometimes named as the reason for these increases but it also makes them possible. Without the inflation, there would not be these rounds of increases which members of Congress particularly call attention to in order to claim credit from some of their constituents.

Labor unions contribute considerably to the pressure for inflation. To keep its following, the union finds it expedient to demand and get higher wages in each successive contract. Union officers seek also to maintain and even increase union membership because their salaries depend upon the number paying and amount of the dues and the effectiveness of the union is tied to its financial resources in a variety of ways.

These two goals—perennial money wage increases and stable or increasing union membership—are incompatible in the short run and impossible in the long run, except under one condition, a regular and continuing expansion of the money supply. All other means of accomplishing this are strictly limited in their application, and self-defeating when employed over an extended period of time. (Indeed, inflation is self-defeating also, but not so obviously or directly.) For example, it is often alleged that wages could be increased by giving workers a larger proportion of the gross income of a company. But this could not continue year after year indefinitely, for there is only 100 per cent, and eventually wages would take all the income. Long before that occurred, however, the company would have been driven out of business, and union membership reduced by the number disemployed. For an industry as a whole, the process would be less dramatic. The price of the product or service would be increased to cover the higher wage costs or machines would replace workers. In any case, the number of workers, i.e., union members, would decline. Another device that allegedly could result in money wage increases would be increased productivity. But overall increases in productivity will not result in money wage increases, in the absence of an increase in the money supply; the

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result, given competition, will be a reduction in prices of product or service. Lower prices would increase the *real* wages of workmen, but unions could hardly claim credit for the increase, since money wages would remain the same, or might even decline.

In sum, unions depend on inflation for their growth, and, with some few possible exceptions, even their survival. The periods of dramatic union growth—World War I, the 1930's, World War II and after—have been periods of inflation. The only extended period of continued large scale union membership in our history has been one of a continued and long-term increase of the money supply, namely from the 1930's to the present.

A Fearsome Burden of Debt

There are, then, a host of pressures toward continued and mounting inflation. Some estimate that the total obligations of the government now amount to something like $5 trillion. If that figure was correct yesterday, it has probably already been surpassed now, and will continue to grow larger if the government persists in contracting more and more obligations. The obligations of the government are such that if all of them had to be met that could only be done by such a massive inflation that the value of our money would be destroyed. Not only that, but if the government had to pay off on all that it has underwritten, it would surely become receiver for the banks, savings and loan associations, many industries, and a considerable portion of the homes and landed estates in the country. These "guarantees" are backed by debt; they are potential massive pressures to inflation, and the present means for meeting the obligations is the monetizing of debt.

There should be no doubt, then, that the government is on a course that if followed will destroy the money, may result in government's becoming receiver for increasingly large amounts of property, and will almost inevitably lead to loss of faith in the government. Someone looking at this from another planet or an enemy country might view all this with equanimity, or even with glee. After all, they might say, the government has made its bed, let it lie in it. Those of us who live in the country, who would not know where to go to find better circumstance if we would, must perforce view the matter differently. The government may have made the bed, but all of us are going to lie in it. If there is some way to avert the collision between money supply and obligations, some way to reverse our course without, say, ruinous deflation, we would wish to find it.

There are some things that should

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be done. They should be done because they are in the right direction and because they offer some prospect of working. It needs to be clear, however, that in offering them the present writer is steering as clear of detailed monetary theory as he can. He is not going to say what should back our money, how much reserves banks should have against deposits, who should issue the currency, or any other of hundreds of questions that could be raised. His predilection is to have as many of these questions answered in the market as possible, but even that is put aside somewhat here in order to stick as close as possible to some general principle. The reasons for these limitations should become apparent in what follows.

No Drastic Changes

Whatever the remedy for the situation there may be, there is one thing it should not be. It should not be drastic. Whatever is done will affect established institutions, contracts, wages, prices, and a whole complex of delicate relationships. The least direct and immediate effect there is on any of these the better. Nor should the action taken excite unnecessary fears about the possible consequences. For these reasons, only so much should be done as produces the desired change of direction.

Two things only need to be done. They are interrelated in that the first will almost certainly lead to the second. The first is to stabilize the money supply. A stable money supply need not be and probably could not be a static money supply. It only means that the pressures to the increase of it be counterbalanced by pressures to decrease it. This is what is meant by or produces stability in any thing. The second is to build in pressures toward fiscal responsibility by the government (and individuals, and companies, and banks, too), toward the reduction of debt, toward balanced budgets, toward reduction of government obligations, and toward the disentanglement of government from the economy.

Some have apparently hoped that political pressures could be built up to counterbalance the thrusts to inflation. This hope probably underlies at least some of the effort to inform the public that government's increasing of the money supply is at the root of inflation or what is causing it. It is a forlorn hope. If everyone in the country, including small children, knew that inflation is the increase of the money supply and that government is the villain of the piece, my guess is that the political pressures would not be significantly altered. The reason is not far to seek. *The only ones hurt by inflation are all of us,* though admittedly some are hurt worse than

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others, at least in the intermediate stages of it. Hence, the resistance to inflation is vague, general and diffuse, apt to be relegated to the realm of hankerings for a good five-cent cigar. By contrast, the benefits of inflation are particular, immediate, and accrue to those in the seats of power, i.e., politicians. All of us wish that the prices others charge would be stable or even decline, but each of us wants even more to get more for what we sell. Inflation feeds on the lure that we can do this, though it is almost entirely an illusion.

Remove Monetary Powers

There is little likelihood, then, that political pressures can ever be built up that will counter the built-in tilt toward inflation. This is just another way of saying that government cannot be trusted with the power to manage the money supply. That is not surprising, after all. No one of us could be trusted with such power. If one of us is multiplied by 500, or 5,000, he does not thereby become more trustworthy, though he may well become more devious. Give any man, or group of men, control of the money supply, couple it with the possibility that he can benefit by increasing it, and the question becomes not whether he will do it but when. Each of us has enough "Après moi, le déluge" not to be deterred from acts simply because they will have some dire consequence in the uncertain future.

What needs to be done, then, is to divest the federal government of its power to increase or decrease the money supply. The expansible and contractible portion of the money supply today consists of the outstanding currency plus demand deposits in banks less the reserves held against the deposits. The money supply can be increased by increasing debts, both those of the federal government and private debts. The government manipulates this or controls it by setting reserve requirements for banks and by the sale or buying of securities by the Federal Reserve banks. Since there is no real limit to indebtedness, the only limit to the money supply is the reserve requirement, but it can be lowered virtually at will. Our money is money by the decree of the government—fiat money—, separated from this only by the backing it receives from the debt.

Two changes in the system would set up major and probably sufficient counter pressures to inflation. They are changes of a character that most people would hardly notice. One would be to prohibit the monetizing of debt, both public and private. It should never have been permitted in the first place. Debt is no security for anything, least of all money. It is fraudulent to pass off as

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money what is secured only by debt. The most effective way to accomplish this prohibition would be by constitutional amendment.

Reserve Requirements

The second change would be in the reserve requirements. There are, it has been noted, two ways that money is created: by printing currency and by creating demand deposits in banks. If debt could not be monetized, there might still be a way for government to manipulate the money by altering reserve requirements. The device involved is called fractional reserve banking. Two varieties of fractional reserve have been practiced historically. One is the reserve against the currency. When currency was backed by and convertible into gold, banks of issue usually had a reserve in gold against their outstanding currency, a reserve which was only some portion of the total—a "fraction" of it. This practice of having fractional reserves against the currency has been continued, though today it means little by way of restraint. The other kind of fractional reserve is the reserves in cash which a commercial bank holds against deposits. Both varieties of fractional reserve can be and are used to increase the money supply.

There is nothing wrong, *per se,* with operating on fractional reserve. It is an old and reasonably honorable practice. Banks are not the only institutions which keep on hand only a fraction of the amount needed to pay off all their obligations, if they should have to do so all at once. So do savings institutions, insurance companies, furniture stores, appliance dealers, and companies of every sort and description. Hardly an individual could be found who has the cash on hand to meet his forthcoming obligations. He expects to pay them out of income as they come due, keeping on hand only sufficient cash for emergencies, if he is prudent. Banks do likewise, though admittedly much of their "income" consists of deposits by their customers.

At any rate, fractional reserve in general is not at issue here. What is properly at issue is any fractional reserve held against the money supply. There is no excuse for a fractional reserve against the money supply. Money should be backed by a 100 per cent reserve of what is used to back it. Anything less is fraudulent and should be punished the same as any other fraud. Any reserve of less than 100 per cent amounts to a false claim as to the character of the money issued. Currency, then, should be backed by 100 per cent reserves against it. If those reserves cannot be debt, they must consist of some sort of assets, assets whose value could be determined in the market

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place and which, if they had to be produced, would equal in value the currency issued against them.

Bank deposits can be held in check and limited by requiring that there be in reserve against them either cash or collateral in the amount of 100 per cent or better. The effect of this should be that banks could only create a deposit on an unsecured loan—debt—by increasing their cash reserves in an amount equal to it. This would not prevent some fluctuation in the money supply, but it would create pressures to hold the supply in check.

How would government service its debt if it could not do so by monetizing it? It could do so in the same way other organizations and individuals service theirs, namely, by borrowing from willing lenders who will lend on unsecured notes or by putting up sufficient collateral to secure the loans. Since banks would have little inducement to grant unsecured loans, such loans as government could obtain without security would be uninflationary. If government put up collateral, such as national forests, this could result in some increase of the money supply, but there would be inherent limits to and checks upon it.

In short, if government could not monetize the debt or manipulate the reserve requirements, the counter pressures to inflation would be developed. Government would either have to raise the moneys it spent by taxes or by divesting itself of its assets. The pressure would be on to reduce the debt. The pressure would be on to reduce obligations. Government would have very little incentive to increase its obligations and strong motives to reduce them. Every pressure to inflation, both public and private, would be matched or counterbalanced by pressures to reduce and pay off debts. There is no reason why these two changes should be strongly inflationary or deflationary. All the money in circulation could remain there, provided only that backing were found for it. All debts and obligations would stand as they had been, counterbalanced only by a pressure to reduce and pay them off. Government would no longer control the money supply; it would, instead, be held in check by it.

IDEAS ON LIBERTY

First National City Bank Letter

IF PEOPLE want easier taxes they can have them, but they will have to pay the price of forbearing to urge more spending programs on a federal government already overburdened with debt and responsibilities.

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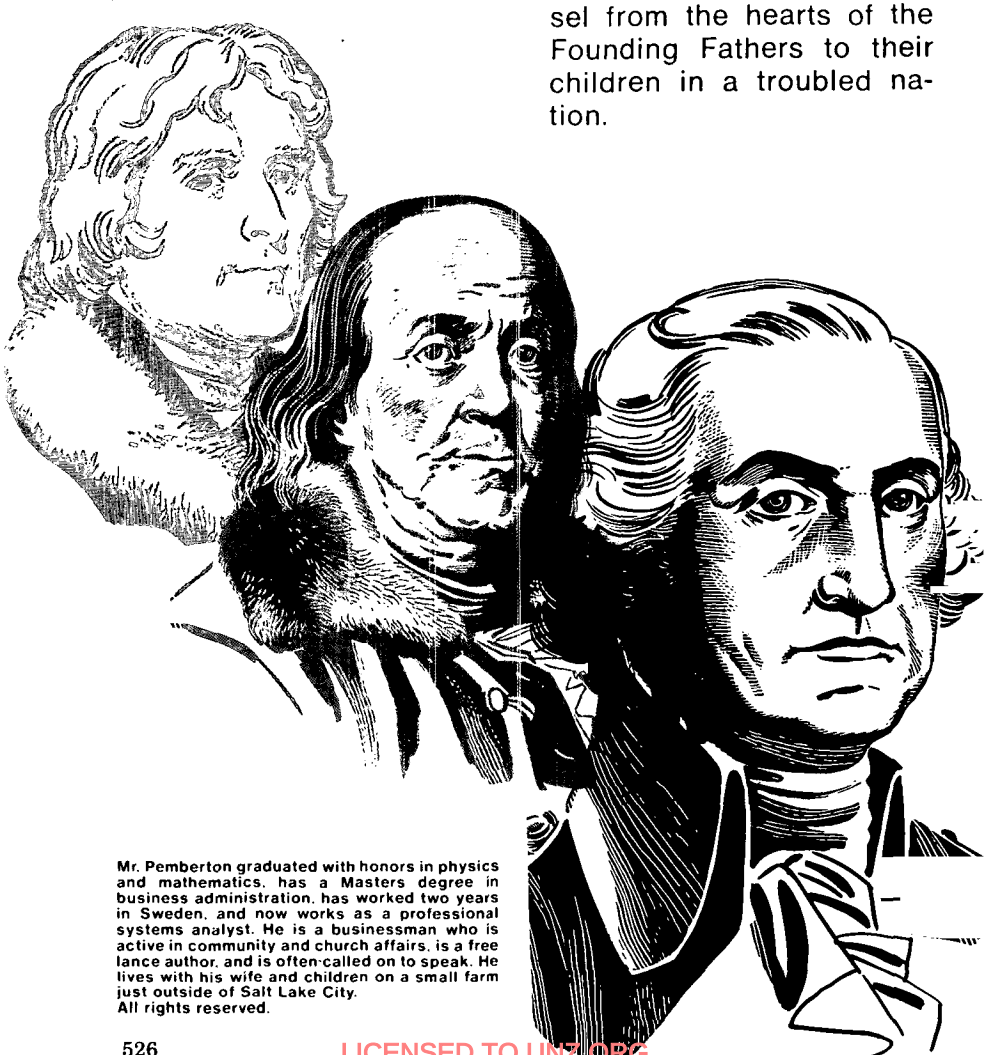
A NEW MESSAGE

JACKSON PEMBERTON

Words of courage and counsel from the hearts of the Founding Fathers to their children in a troubled nation.



Mr. Pemberton graduated with honors in physics and mathematics, has a Masters degree in business administration, has worked two years in Sweden, and now works as a professional systems analyst. He is a businessman who is active in community and church affairs, is a free lance author, and is often called on to speak. He lives with his wife and children on a small farm just outside of Salt Lake City.
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V. On The General Welfare

This continues a series of articles in which the author draws upon the extensive collection of the thoughts of the Founding Fathers and lets them speak to us relative to the problems we face in the United States today.

YOU may have had occasion to observe, in the course of pondering the troubles of your times, that nearly all of your political abuses come from your federal government, and that most of these problems have come to you under the happy title of the general welfare. In this discussion I wish to remind you of the provisions we made for the general welfare, and more especially to remind you of the provisions we did not make for your individual welfare, when we gave you the Constitution.

You must forgive me if I expound a moment upon some fundamental attributes of law; for it is ignorance of these which, more than any other single thing, has allowed you to be led from your pleasant past to your present trouble.

If all men were perfect in their moral behavior, acting with fairness, benevolence, and in consideration of the rights and liberties of their fellows, then all human government would be just so much unnecessary baggage, and would have been dropped along the road of human progress long since, for in that divine state man would have made the law an integral part of his head and his heart. Every man would see to his own life, that he made no trespass upon his fellows, and that he was only a blessing to them, and hence to himself also.

Such is clearly not the case, at least not yet; and therein arises the necessity of law. Law was not formed to give man his rights; on the contrary, it is because men have rights that law was conceived: to protect those rights from the encroachments of others. This is easily seen if one considers a single human being alone on the planet. Immediately, all the books of law in the world become useful only for convenient stools and warm fires. He has no use for a system which is designed to protect him from something which does not exist, nor

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could the law in any way enhance his talents, his freedom, or his security.

The law we gave you in the Constitution was to protect you from the abuses of your neighbors and your government; it was for your general welfare (or for the welfare of the people in general, as you would say) to protect you from the abuse of any person or power which might attempt to force you to act against your will, or to restrain you from the righteous use of your liberty. It was also to prevent your government from enacting laws which would benefit some part of society at the expense of the remainder, which is what it must do in order to promote the welfare of individuals. For, when a government can promote the economic status of the individual, it uses that power to build itself into an aristocracy. The aristocracy thus formed uses law to impose its will upon the people through burdensome taxes, arbitrary regulation of private affairs, and control of all types of private property. It uses the substance of the people to maintain its power over them, as in public financing of private political campaigns. This is a pattern as old as human governments, repeated a thousand times in history.

The intent of these illustrations is to show you clearly, so that you may understand without confusion or doubt, that law is a negative instrument. It can do nothing of itself. It produces nothing; indeed it is a consumer. Its only positive value lies in its ability to restrain other negative influences. You may fill your head, your books, and the air with glowing words of the virtues of law, but you can never deny that after all is said, law is only negative force.

The law can protect, restrain, and punish. It cannot create anything nor bring to pass any positive condition. It is possible for law to protect man from dishonesty, but impossible for it to make men honest. It is possible to restrain violations of property, but impossible for it to create property of any kind. It is possible to protect a man's security, but impossible to give him security. It is possible to minimize injustice, but impossible to create justice. It is possible to restrain man from exploiting his neighbor, but impossible to make him charitable. It is possible to punish unrighteousness, but impossible to make men righteous.

Thus it is with all the positive states of man. The law, a negative instrument, cannot create them, it can only attempt to prevent their opposites. Honesty, equity, justice, opportunity, and charity must spring from the love of one man for his neighbor, or there is none. And

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furthermore, when the attempt is made to obtain these high human virtues from any other source, only confusing counterfeits result. You now find such all around in your bureaucratic programs which bumble along under the deceptive titles of welfare, equal opportunity, social security, income security, and the like. The reason they fail their noble objectives is that they are founded upon false principles. But it is not difficult to understand how you came to this perplexing state of affairs.

During those glorious years following ratification, we made full use of our great freedoms; those who applied the human virtues most diligently were rewarded most bounteously. Honesty, fairness, toil, intelligence, wisdom, thrift, and sacrifice attracted people, property, and satisfaction to all their practitioners; and the law protected the rights and property of all. This protection by the law gave men confidence to muster all their best efforts and virtues, and to apply their God-given powers with vigor, for they were assured of the opportunity of enjoying the fruits of their labors. The law was so effective in helping the citizens to generate these happy conditions (by preventing their opposites) that they were eventually persuaded that the law was the source of their happiness, whereas it was they who had created it, and the law had only protected it. There, alas, was the turning point.

Thinking that the law was the source of their blessings, men asked the law to give them other blessings such as equal opportunity, employment security, and so on; all with the false hope that they could enjoy liberty, equality, and security by the passage of laws through the Congress. Only now are you beginning to fully realize that the security the law can give is found in the absence of freedom, and the economic equality the law can give is in the absence of the incentives of production.

But there is still another and more fundamental reason for the failure of the law to provide you with these wanted gifts, for the problem is not only that the law is strictly a negative operator, but also that the Congress has sought by law to endow the government with prerogatives which it cannot rightly possess. The government has been given powers which even individual citizens do not have, and has been made to thus infringe upon the rights it was designed to protect. Let me explain.

Suppose, for the moment, that you possess three horses while I have but one. I have no right to take one of yours, since your abundance is likely the result of your labor and

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frugality, while my deficiency is the result of my study of the clouds over my dooryard. Lacking the right to steal your horse, I might approach the local magistrate and grant him the authority to transfer one of your horses to me.

What authority? I have no such right, and yearn as I might for that power, the prerogative is clearly not mine to give. Then suppose the officer took it upon himself to give your horse to me with neither my request nor your consent. Whence is his authority to appoint himself an agent to steal your property and break the law he was commissioned to enforce? He has even less authority (if that were possible) than before, for he would violate the rights of both of us: your right to your property and mine to my independence.

Now, should you have excess and I have actual need, we might both be blessed by your generosity; but to force you to give me your property can only cause you to revolt and me to shrink. Nay, only you have the right to your property; and connive, plan, and commission as I may, if I obtain your horse by any initiative but your own, you have been robbed.

Thus your government has presumed to create rights unto itself, by which it takes from one and gives to another under the ill-formed principle of coercive charity. Indeed, it is difficult to imagine concepts more self-contradictory than those of charity by force, or equity by theft; or to find in all history a system more subtly destructive of the human spirit.

It would be better if your government saw only to the welfare of the genuinely misfortunate; but alas, it has long since outdone that activity and now plunders the property of the intelligent, the frugal, the diligent, and yes, the fortunate, and doles it out to the lazy, the spendthrift, the foolish, and yes, the unfortunate. How will you build prosperity by punishing the prosperous? How will you encourage production by destroying the ambition of the producer? By heavy overlapping taxes and unwarranted meddling regulations your government has shackled the worker, and then if that did not suffice to put an end to his labor, it has tempted him to the deceit of pretended idleness by offering a good living in exchange for an artificial unemployment.

If it is prosperity for all you desire, then every man must find it to his advantage to be industrious. To be industrious he must be an eager worker, and he will not be eager without cause. History has manifest abundantly that the freedom to earn, own, and control material goods is the most compelling cause to ever provoke the human

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spirit to its highest potential of productivity. Was it not manifest most clearly in your own history? The records of nations overflow with the failures of welfare states, and you see even now in your own society the warning signs of an economy overburdened by the natural extravagance of welfarisms.

But there is more than just the material aspect of this question: the very spirit of man is in jeopardy. The rich should be filled with compassion and concern for the poor, and the poor ought to be humble and gracious when they receive assistance; but the plan of your politicians who purchase the votes of the poor have taught them to be haughty and defiant in their demands for the bread of the rich, and your rich have learned to resent and despise the poor. Thus your people are under the same misguided principle of false charity that has destroyed nations before you; for when the rich have been pillaged to the limit of their patience, and the poor are fully ripened in their lust for the just reward of labor, then is your nation but a breath away from the ravages of civil war, where it will be brother against brother, and family against family, and city against city; where production will cease and prosperity become a dream. This thing must be stopped before it is allowed to run full course and consume you!

"But," exclaim your self-styled social saviors, "it is not fair for one to be rich and another poor, especially when he came by his poverty honestly, through misfortune and not by any lack of diligence." Shall you make the poor more honest by giving them the fruits of their neighbors' toil? Will you raise the poor by injury to their self-esteem and independence? And why will you fine the rich because of the poor? And what is more, where will you obtain the right to do either?

You who are the producers, if you will go to battle now and regain the rightful control of your property, you may leave your weapons behind and have the matter settled in a short time. But then, when you have unburdened yourselves of the indolent poor, you will do well to remember the misfortunate poor, for it was partly your lack of compassion which gave the socialists excuse to plunder your goods in the first place. If you will share your prosperity with the aged and the unfortunate by humility and graciousness, you may bless both yourselves and them.

You who think you are poor, but are drunk with the wine of idle affluence, you have been wronged perhaps more than your unwilling patrons, for you have been dishonored, demeaned, and addicted. Your well-to-do friends have mostly

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an angry complaint, but you likely suffer from damage to your very character. But there is a happy side to your condition, for although your disease is the more serious, it is the sooner remedied. All you need do is stop accepting the unearned gifts of a too-patronizing government. That exercise may prove inconvenient for a time, but the sooner you set about it the sooner you may trade idle entertainments for the deeper satisfactions of building your own life through the exercise of your own strengths.

Some of you, when your unearned income ceases, will be tempted to behave unseemly, to create a vigorous uproar, to claim it unfair and an infringement upon your rights, for you have enjoyed the dole so long you feel you have a right to it. You will feel alarmed because you have lost confidence in your ability to provide for yourself. You will feel angry because you will have to work to care for your needs. You will find it difficult to thank those who have sustained you during your dependence upon their labor, and you will feel moved to destroy the property which was given you. Such is the depth of the damage done you by the so-called blessings of equal opportunity and welfare. You must exert all your energy to act with the restraint and the graciousness which befits a human being, and shun the temptation to demand a continuation of your free-loading and to thus grovel before your patrons as miserable beggars.

I wish you well, both of you, in your struggle to free yourselves; you must not faint nor fail; it is a cause every whit as significant as ours was. Be careful to put down the desire to obtain what seems to be your share of the public booty, remembering that the government can give you nothing without first taking it from you and keeping a portion for itself. Be aware that you must dismantle a bureaucracy which was the favorite child of its creators, and you will not be allowed to succeed without opposition, but be also assured that your victory will be worth far above its price.

It is a strange and sad contradiction that our nation now displays; for on the one hand you have learned to carefully discover and obey the laws of physical nature which let you put men on your moon, but the laws of human nature which have been known for centuries you cease not to violate. You lift your rockets by strict obedience to natural law; if you will be equally strict in your observance of the laws of human conduct, you may do the same for man. There is no other way. Man will never reach full development of his potential until he learns to place the same faith in the divine

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laws of right living as he places in the equally divine laws of physics.

This is not a matter to be lightly laid aside with a false hope that your national character will soon improve without your best effort! Nay; hear me! You are in the path that has taken many nations down to destruction. No one can deny it! It is written in your histories.

Oh that I had the power to awaken you to a full realization of your condition, and to enlighten your minds to a full understanding of these crucial principles! But it is you, my Sons of Liberty, who must arise and throw off the drugs of false security, learn wisdom of history, and apply it in your lives. Let each man begin with himself, to re-establish the due honors of personal integrity, and to provide for himself and his own; then let him do his duty to his posterity to protect the divine rights of man by reasserting the principles of the Constitution! They came to you through the inspiration of the Almighty, the Author of liberty. He will inspire you again in its restoration when you seek His guidance with humility and singleness of heart.

Next: VI. On Political Philosophy

IDEAS ON LIBERTY

Campaign Promises

WE ACT as if the State can feed us when we are hungry, heal us when we are ill, raise wages and lower prices at the same time, educate our children without costs, give us electricity by passing laws, and improve the game of baseball with regulations. We need just pass a law and then stand back and be overwhelmed with all the goodness of life.

Let's try to be sensible for awhile. It is the differences in people that make possible our progress. The object in education is to develop your own special abilities to their utmost, not to conform. We as individuals have rights that the majority cannot take away from us.

It is time we used our common sense. Hard work, not legislation, makes production. Production, not regulation, makes prosperity. The legislature cannot amend the laws of economics anymore than it can the law of gravity.

RAE C. HEIPLE, II

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Boston Athenaeum

Why Public Libraries?

STEVEN J. SCHNEIDER

MOST LIBRARIANS, as well as the people who use public libraries, consider it a proper function of government to provide library services free of charge. Public libraries had their beginnings just when the idea of educating the masses through public education became popular. In 1850, the city of Boston proposed the use of public funds to establish a library. In the forefront of this move was George Ticknor, a respected member of the Boston aristocracy.

Ticknor believed in the library's potential as a means of restraining the "dangerous classes" and inhibiting the chances of unscrupulous politicians who would lead the ignorant astray, which explains his insistence that the library be as popular in appeal as possible.[1]

However, the ignorant do not use public libraries and, to this day, still elect politicians of dubious qualifications.

The public library movement grew at a steady pace with the aid of Andrew Carnegie's program to dispose of his surplus wealth by providing free public library buildings to communities which would stock them with books and maintain them in perpetuity with tax funds. There was a notable effort on the part of enterprising communities to secure Carnegie library buildings. Nearly 2,000 such structures were made possible in this way.[2]

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During 30 years after 1865 the Carnegie gifts ran their course, and the free public library became an object of pride throughout the land. It was distinctly an American institution.[3]

The argument in favor of public libraries is that they provide a place to obtain information and recreational reading that the users cannot afford on their own. The taxpayers underwrite the costs.

> The "Public Library" which we are to consider is established by state laws, is supported by local taxation or voluntary gifts, is managed as a public trust, and every citizen of the city or town which maintains it has an equal share in its privileges of reference and circulation.[4]

But is there any public library which serves the entire public which pays for its upkeep? A study was made in 1950 of the users of public libraries. It found that:

> Most of the book reading is done by a small minority of the people. More than half the adults of the library live within a mile of a public library yet only one fifth of them visited a public library during the year preceding this survey, and only a tenth averaged as much as a visit a month.[5]

A 1975 Gallup survey of adult use of the public library came to similar conclusions.

> . . . only a substantial minority of American adults makes regular use of the public library . . . The better educated, white collar and professional classes and the young use the public library more than their opposites. Book lending services are seen as the most common function of the public library.[6]

Public libraries, like other public services, were established by well-meaning citizens who assumed that the "public" wanted these services and were willing to pay taxes to support them. But there are those who disagree. Writing in *Library Journal*, Michael Harris questions the notion that the public library was established in answer to public demand:

> It is commonly believed that the origins of the public library movement testify to the power of popular democracy in this country. And yet, everyone knows that historically only a very small portion of the eligible users have ever crossed the threshold of a public library.[7]

The First, in 1833

Petersborough, New Hampshire was the first town to pass a public library law in 1833. In 1849 New Hampshire passed the first statewide act providing for the establishment of public libraries. Up until 1833 the only libraries in existence were private university libraries, church libraries, society and subscription libraries, and mercantile and mechanics libraries.

The users of these libraries were students, the clergy and their parishioners, clerks and apprentices, and those people who were

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interested enough in furthering their education to join a subscription or society library.

Prior to 1850, public tax supported libraries as we know them today were nearly nonexistent. The nearest approximation were the subscription and social libraries which were voluntary associations of individuals for the purpose of buying books to be jointly owned by all those who belonged.[8]

In the introduction to the 1876 report the Bureau of Education acknowledges the importance of the private libraries in existence.

It will, of course, be understood that no attempt has been made to collect information respecting private libraries. While a multitude of these libraries exist, thousands of which are of great value, some rivaling in completeness, in special departments of knowledge, even the collections of leading public libraries, it would be impracticable, if otherwise expedient, for the general government to gather and present reasonably complete and satisfactory information respecting them.[9]

The 1870 census attempted this task, and although acknowledging that its figures were not complete, estimated that of 163,353 libraries containing 44,539,184 volumes 107,673 were private libraries containing 25,571,503 volumes.[10]

Had public libraries not materialized, I do not doubt that private libraries would have been able to handle all the needs of their users.

All in all by 1850, 1064 libraries had been established in New England alone. In the services they gave, these institutions followed modern library practice; they bought the books their members wanted, allowed them to be circulated for a month or so, and instituted fines for violation of the rules. In their later development they branched out into special libraries for mercantile clerks, mechanics, children, ladies, lyceum audiences, farmers, factory workers, lawyers, and music lovers. This was a library system of a sort, and it is probable that almost every serious reader could get access to what books were in his community.[11]

Many of these libraries went out of business for various reasons. Some were forced to close because, due to low literacy rates and few leisure hours, there was a limit to the clientele they could attract, and could not afford to stay open. Others, after 1850, could not afford to compete with tax-supported libraries and were absorbed into the public library system. However, while they existed, they fulfilled the services their users required of them. Why then public libraries?

Public Libraries in Trouble

Today the public libraries are in a crisis. The 1960's, in which funds were liberally handed out for all kinds of library projects, have been replaced by the 1970's, in which many municipalities are on the edge of bankruptcy. All across the

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U.S. the taxpayer has had enough. The taxpayers are resisting higher taxes at a time when inflation is increasing the cost of government services. All agencies of government are competing for the same money, and libraries are on the bottom of the agency totem pole. Although everyone is taxed to support the library, only a small percentage use it regularly. Unlike the schools, the libraries have no law that compels people to use their services.

Library budgets are being slashed, personnel fired, and branches closed. Librarians, trying to negotiate the labyrinth of government to lobby for more tax money, are finding the whole process frustrating and tedious. Marilyn Gell describes the process in *Library Journal.*

> In seeking funding for a cooperative library project, for instance, it is necessary not only to obtain a consensus from the libraries involved, but agency approval as well. The process can sometimes take several months, involve several policy committees composed of numerous politicians, and can be an exhausting experience.[12]

And no matter how valid the arguments for your project, or how well they are documented, who you know is usually more important than what you know; this is how things get done in the political arena. "Access to those individuals who interpret policy is valuable indeed."[13]

As an example of the irrationality of government policy, the following appeared in a New York *Daily News* editorial:

> City Hall geniuses have an Alice in Wonderland explanation for a decision to close three existing libraries while proceeding with construction of five new ones.
>
> Their argument is that the actions are unrelated; capital funds are available for building new facilities, while the padlocking of already-operating libraries is dictated by lack of expense-budget money for staffing.
>
> But once the projected new branches are completed they will have to be manned. And if the city can't find the money to run the libraries now, where will it get the dough to operate five others later on?
>
> Or shouldn't we expect our officials to look ahead?[14]

A Shortsighted View

As evidenced by the state of the economy today, we see that government officials do not look beyond the short range effects of their actions, that is, beyond the next election. Any business that tried to operate along these lines would find itself quickly bankrupt. The only thing that keeps local governments from going out of business is their supposedly unlimited source of funds: taxes. But the climate is changing, the money reservoir is beginning to

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dry up. If librarians will look to the future they must realize that they cannot continue depending on government funds. What is the alternative?

Assuming no public libraries, where will people go to obtain reading matter for entertainment and information? Since 1850 there has been a revolution in the printing industry. Due to higher literacy, and more leisure time, and a large class of people willing and able to buy books, there is a market for hundreds of thousands of books in inexpensive editions. Back then, books were few and far between, expensive to produce and purchase. Nowadays people do not have to be wealthy to have their own personal library. The paperback reprint industry has brought many books within everyone's reach. For more expensive hardcover books, the needs of readers can be taken care of by rental libraries. Some bookstores now have rental libraries as part of their operation. Without public libraries, bookstores and other service-type businesses would fill the vacuum for providing recreational reading.

Some libraries now produce cable TV programs. It is possible to reverse this trend and have cable TV companies operating libraries as a service to their subscribers, with the subscribers and the library being in the same relationship as an on-line terminal user to a computer.

The reference services of public libraries can be converted to profit-making information services. With the rise of computerized on-line data services which charge their users for the information they provide, this is already becoming a reality. Today the demand for current information has mushroomed and only computers will be able to handle the increased traffic. On-line terminals are becoming a familiar part of a library's reference department. Public libraries cannot afford to provide these services without charging their users for them.

The Economics of Fact-Finding

Information is valuable and scarce. In a world of ever-increasing dependence on information it is unrealistic, therefore, to insist on providing such a good free to all comers. Eugene Garfield, chairman of the Information Industry Association, testifying before the National Commission on Library and Information Science, said:

> User based charges must inevitably prevail... information is the result of economic effort and its costs must be borne by someone. The depression type psychology that dominated library training cultivated the concept that library service should be free ... anything you get for nothing is of questionable value. Charge, and your service is better appreciated ... The existence of an already large information industry

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supports the assertion that the buyer of information is prepared to pay for those services he learns to respect.[15]

There are many private libraries already in existence to meet the needs of scholarly researchers. The Henry E. Huntington Library in California was established as a free public research library open to qualified scholars for investigation and reference use and supported entirely by an initial endowment by Henry Huntington plus grants and gifts by others over the years.

Another example is the Henry Clay Folger Shakespeare Library in Washington, D.C., housing a collection of the social and intellectual history of England from the invention of printing to about 1700, open to all scholars who have a serious problem requiring use of the materials.

Add to these the numerous private college and university libraries housing special collections of use to the researcher, from the small college with a history of its community to Harvard University, which rivals in size the national libraries of Great Britain and France.

One library of special note is the Boston Athenaeum, founded in Boston in 1807 by selling shares in the library as well as annual and lifetime subscriptions. In 1853 it successfully fought off a move to incorporate it into the Boston Public Library and today is still an important private institution. In 1907 the Athenaeum celebrated its centennial.

Throughout all its various changes, the Athenaeum has represented what was best in Boston. The "golden age" of New England literature grew with it and ever within its walls. Its traditions are a part of life, and are passed on from father to son. Because its ideals have been high the Athenaeum has appealed to men who lead as well as those who follow. And with their continued support success in the future seems assured.[16]

There are also special libraries for all types of non-fiction materials provided by various corporations and trade associations which will provide answers to questions asked of them and will open their libraries to people doing research on their special subjects.

Improved Service

Private libraries would be more responsive to the needs of their users. Instead of being open during the day only, as is now the case in many libraries, these libraries would be open when the users needed them, nights and weekends, and early in the morning. As was the case in the early 1800's, special libraries would develop to serve the needs of special classes of users. A children's library run by librarians specializing in children's librarianship; a local fiction society catering to the wants of its members; there

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are many possibilities. People are so used to depending on the government to get things done they forget how to do things for themselves.

Now is the time to start considering an alternative to public libraries. A first step is to have public libraries charge fees for their services. The next step is to offer the libraries for sale, preferably intact, after passing a law that prevents the use of government funds for the establishment or maintenance of libraries.

The next time a proposal for increased property taxes is put forth in your community to pay for library services, ask yourself if we really need public libraries.

— FOOTNOTES —

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[10] *U.S. Census of Population and Social Statistics, 1870*, p. 472, 473.

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[12] Gell, Marilyn, "The Politics of Cooperation," *Library Journal*, 98:3230, Nov. 1973.

[13] *Ibid.*, p. 3229.

[14] "Two Different Worlds," New York *Daily News*, Oct. 17, 1974, p. 61.

[15] "IIA Urges User Fees For Libraries in NCLIS Testimony," *American Libraries*, 4:335, June 1973.

[16] *The Athenaeum Centenary: The influence and history of the Boston Athenaeum 1807-1907*, by the staff of the Boston Athenaeum, Gregg Press, Boston, 1972, reprint of 1907 ed., p. 56.

IDEAS ON LIBERTY

Herbert Spencer

THE MORE NUMEROUS public instrumentalities become, the more is there generated in citizens the notion that everything is to be done for them, and nothing by them. Every generation is made less familiar with the attainment of desired ends by individual actions or private agencies; until, eventually, governmental agencies come to be thought of as the only available agencies.

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HARRY LEE SMITH

Land Use and Capital

HISTORICALLY the ownership of land has been vested in the ruling classes. Often the monarch himself owned all the land. Public (collective or governmental) ownership is a primitive institution commencing with tribalism and persisting through the feudalism of the middle ages. Only during the past two centuries has private ownership of land found wide acceptance. But even today, a third of the world lives under communism which adheres to the archaic concept of public lands. In addition, there is considerable socialistic pressure in the free world to extend public control over all land use.

In the United States today about 60 per cent of the land is privately owned. During the nineteenth century it was national policy to transfer as much land as possible to the private sector. Now the process is reversing.

Mr. Smith is a businessman in California.

The importance of the institution of private property to well-being and even to survival bears further analysis.

When Columbus discovered America the natives did not have the wheel, the plough, horses, livestock, or the concept of private land ownership.

The extremely inefficient hunting society of the North American Indian required about ten square miles of land to support one Indian. Marion Clawson, the author of *America's Land & Its Uses*, and the former director of the Bureau of Land Management, makes this comment: "Given their technology, the Indians had probably reached the numbers that represented the carrying capacity of the land. All of the area of the present United States that was habitable at all was occupied by some tribe or tribes; *there were no empty lands.*"

But today we have plenty of empty lands despite an increase of

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population from possibly 300,000 Indians to over 215,000,000 Americans. Furthermore, the Indian existence was precarious and marginal; either drought or a severe winter could produce famine.

Sixteenth-century England also considered itself to be over-populated for an agricultural society. This produced the incentive to seek colonies overseas, especially in North America.

Agricultural Use of Land

Agricultural land can support about 250 times as many people as land used for hunting. So to make the land support additional numbers, our early settlers cleared the land for agricultural use.

Today, the three big uses of land are for crops, forests, and grazing. Together they account for 89 per cent of the total.

Today's farmer uses 23 per cent of the land area of the United States for crops. He no longer provides all of the inputs as did the pioneer, but buys about 70 per cent of his needs in the form of fertilizer, feed, machinery, fuel, and water. This requires capital.

He produces 2 1/2 times the total output of farmers of only 60 years ago, with one-third the man-hours and one-half the cultivated land. This agricultural efficiency is unique in history, with the result that the United States is the best-fed nation on earth and leads the world in agricultural exports.

Our present forest lands comprise 32 per cent of the total land area. About two-thirds of this is composed of small unproductive stands which someday might be consolidated and exploited. Growth of new lumber outpaces new cutting by 1.6 to 1, and this ratio has been increasing steadily since the 1920's. Due to the use of other building materials, total lumber consumption has hardly changed since World War I. Also, lumber companies are just getting started on forestation techniques similar to those which have revolutionized farming during the past 60 years. With sufficient capital input, there is no danger of running out of lumber.

The biggest agricultural use of land is for grazing—34 per cent of the total. This is also the least productive use of farm land. With more and more cattle being raised on farm feed lots, a good deal of this grazing land remains unused open space.

Finally, 10 per cent of the land has miscellaneous uses, some of them quite important. They include lands for transportation, recreation, water storage, mining, and defense.

How Cities Serve the People

This leaves only one per cent, which is the area occupied by all of our cities. Actually, cities of over

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25,000 inhabitants occupy only one half of one per cent of all land. Never has land been used more efficiently than that.

The secret of making land support more and more people is the application of technology and capital—the dichotomy proposed by Adam Smith. They seem to grow together. But of the two, capital is by far the more important. While agricultural technology is freely available to the poorer nations of the world, they cannot avail themselves of this knowledge due to lack of capital.

It was the advent of political freedom for the individual which induced agricultural efficiency. This required fewer farmers. The displaced farmers went to the cities where they produced capital which further enhanced agricultural productivity. Today, in a very real sense, our food is produced in the cities. The United States is 73 per cent urbanized; but California, which is 87 per cent urban, leads the nation in agricultural output.

Agricultural land should yield to urbanization, since the cities provide the capital which is the touchstone of massive food production. During the past 60 years, as a consequence of agricultural efficiency, half of our cropland has been retired but is available for food production if needed. We need have no fear of running out of food due to the paving over of agricultural land.

The application of capital to land not only produces abundant food. It also has generated an ever-increasing quantity of energy which activates mechanical servants in our homes and industries. And the combined uses of capital and land yield more and more raw materials, either conventional or synthetic.

Some Wasteful Practices

As we added millions of immigrants to the carrying capacity of the land of the United States over the past 500 years, the available capital was not sufficient to keep the land in prime health. Some cropland was over-ploughed, some forest land was over-cut, some grazing land was over-grazed. Capital in the form of deep-well pumps, seed, and fertilizer can cure such ills. But despite the relative scarcity of capital, the land proved to be anything but "fragile" and supported its burden remarkably well.

The abusive or wasteful use of land seemed to bottom in the 1920's and there has been an improving trend since then. With 73 per cent of our population living on one per cent of the land, open space has increased. We have set aside millions of acres for nothing but recreational use. This is in contrast to the American Indian who, technically speaking, had no spare open space. He dedicated all of his labor and

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capital (which was the land) to survival.

Another thing that happened in the 1920's was that land use stopped changing. Except for taking certain crop and grazing lands out of production, overall land use maps of 50 years ago look very much like those of today. Also, despite continuing urbanization, the proportion of the population living in major cities of over 250,000 has not changed in 50 years. Our urban growth has been mainly in suburban satellite cities. But this "urban sprawl" has used but a fraction of one per cent of the land.

How Cities Develop

The value of urban land is 1 1/2 times the value of all other lands combined, even though urban land is but one per cent of the total. This is an indication of the value we place on capital-producing land compared to any other use. Furthermore, the carrying capacity of urban land is incredibly high. Cities can carry densities as high as 600,000 persons per square mile. This might be compared to 25 persons carried on a square mile of typical farmland.

If 600,000 persons were placed on a one-square-mile island covered with asphalt, they would obviously perish. Giving them food would not be a long range solution. Also, massive education on wealth-producing techniques would, of itself, not save them. Even massive grants of capital would probably be politically dissipated. Only the gradual building up of lines of transportation, communication, energy generation, and industrial production over time would allow for a thriving community. Such is the case of Hong Kong. Such is the miraculous power of private capital.

The poorer nations of the world benefited little from the industrial revolution except in one regard: medical knowledge developed in the West has reduced their death rate. The resultant swollen population must be kept alive by increasing the carrying capacity of the land. This requires financing.

Obviously there is a precarious balance between urban and rural life. If the capital-producing ability of the United States were destroyed, the land could barely support a third of our present population as pastoral inhabitants. The rest would perish.

This is exactly what happened in April of 1975 when the Cambodian communists drove the inhabitants of Phnom Penh and other cities out into the jungles and fields. Many of them have perished. Stalin did the same thing when he disbanded Russian farm communities in the 1930's to enforce collective farming. Millions perished on the Russian steppes.

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Cities Under Attack

In a similar but less extreme vein, our American cities are under attack. There are master planners who have suggested that our cities be entirely rebuilt, at enormous cost. Such land use planners often put the priorities of the upper middle class above those of the less fortunate members of society. For instance, despite an energy crisis, planners would allow esthetics to take precedence over heated homes in the matter of coal strip mining. Also, despite high lumber prices, the priorities of hunters and campers are considered more important than cheap housing in the matter of efficient clear cutting on forest land. And invariably, planners believe that urbanization should yield to farm land which, as we have seen, is detrimental to massive food production.

Over the generations, planners often reverse themselves. In the past, city governments have ruined all private urban transit systems by prohibiting needed fare increases. Now city planners urge the spending of billions in tax funds for public mass transit systems. In the past, the federal government has fostered the growth of suburbs through FHA financing of new homes and by building freeways. Now planners propose the spending of billions in tax funds for urban renewal. Since taxation is a prime enemy of capital formation, the process is not only painful but destructive.

No society in history has ever developed such a rich, healthy, and comfortable life as that of the American urban dweller. Yet critics of city life can only see urban sprawl, congestion, decay, poverty, pollution, smog, crime, and social injustice. This attitude pervades the thinking of most city planners. They are not interested in the wealth-creating function of cities. For them, cosmetic improvement takes precedence over business vitality, employment, growth, and economic well-being. Planners take up valuable central city space for government buildings, parks, and green belts. They often oppose such innovations as industrial parks, condominium complexes, mobile home parks, and shopping centers, all of which are developments of the past 40 years and none of which were foreseen by city planners.

What makes modern governments tend to be hostile toward capitalistic cities?

Among other things, the modern city is a machine for the creation of private capital. It is the manifestation of, and the vehicle for, the emancipation of peasants who formerly lived in rural squalor. It has elevated millions of urbanites into the heady realm of material well-being formerly enjoyed only by the

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ruling classes. The process has produced a vast economic hierarchy. Many intellectuals look on the capitalist businessman with the same contempt that the nobility formerly held for the peasant, since now the peasants have committed the unforgivable sin of becoming rich.

Urban Development, Up from Serfdom

If we look for a moment at the history of cities, we find that urban life has been the exception rather than the rule. Historians have distorted the past by writing mainly about the tiny but powerful ruling classes which tended to live in cities—hence the word "urbane." Most cities of the past were political cities, built for the protection and pleasure of the monarch and his court. Such cities produced nothing and tended to be an economic blight on the surrounding countryside. They existed by taxing the peasants who lived outside the city's walls. Most of our ancestors were such peasants, and our present middle-class population consists of emancipated peasants.

In fact, most of our ancestors were serfs, bound to the soil by the ruling classes. This kept the masses out of the cities and retarded upward social mobility, technological progress, and capital formation. Such things had to await the political freedoms put into practice during the eighteenth century.

In the fifth century BC, the Roman dictator Cincinnatus was asked about the secret of his success as a ruler. He took his interrogator into a nearby wheatfield and with his sickle proceeded to lop off the tops of wheat stalks which had the temerity to grow taller than the average. So have rulers generally tended to lop off the heads of individuals whose success has threatened their power, wealth, or social prestige. This reactionary policy of egalitarianism for the masses is fundamental to communist and socialist doctrine.

"Hubris" is the word the Greeks gave to the urge to rule the lives of others. It is hubris which has motivated the Stalins and the intellectual planners of the West to play with people's lives and fortunes as though they were pawns on a chess board. This arrogance deludes those with political power into believing that they can mold a city more effectively than can the economic forces of the market place.

The city of Houston has no zoning ordinances. The economic forces which have shaped Houston have been thoroughly analyzed by Bernard Siegan in his excellent book *Land Use Without Zoning*. In discussing land use maps of various cities with city planners, Siegan found that, when looking at

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Houston land use maps, the experts were not aware that they were examining an unplanned city.

The most effective force in shaping a city is Adam Smith's Invisible Hand. It is the same Invisible Hand which has produced open space where none existed before, which has created arable land when required, and which has made the land produce in abundance. In the case of cities, some unexpected by-products have been the magnificence of the Manhattan skyline, the quaintness of New Orleans' Latin Quarter, and the vitality of downtown Houston. For those who see beauty in vitality, all capitalist cities are beautiful.

The city planners of Phnom Penh effectively accomplished their purpose of eliminating the hated middle class. But the American city planner, while striking at the "greedy" middle-class builder or developer, harms the poor man most of all. During the past 20 years total housing costs and expenses have risen 303 per cent while disposable income rose only 183 per cent. Real estate taxes have soared 341 per cent. This has all been brought about by government intervention in the market place, including costly delays, increased public service costs, competing with private industry for capital funds which induce high interest rates, and land rationing through zoning.

Controlled growth in cities has the same effect as controlled growth in any other sector of the economy. By discouraging production, economic goods, including land, become scarce and prices rise. A corollary to the law of supply and demand provides that when prices rise the first person to be deprived of goods and services is the poor man. Increased costs curtail the emancipation of the peasants.

The Importance of Capital for Economic Growth

There is no force more likely to produce mass starvation among the peasants of the world than the prejudice of Third World leaders against private capital formation. On the other hand, in the United States we need have no fear whatsoever of famine at the present time. By historical and Third World standards, hunger and poverty have practically been eliminated. The fluid which has made this possible is private capital. Marion Clawson has this to say regarding our fortunate situation. "There seems little reason for concern about the nation's ability to feed itself. By increasing agricultural output and by shifting to more cereals and less meat in the national diet, *the country can feed 10, or 20, or even more times its present population*... The ultimate food productive capacity is so far above the present level that there is

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nothing to be gained from trying to estimate just how large it is."

This statement claims that, given enough capital and economic incentive, the land area of the United States could feed the entire present population of the earth.

Of course, China, Russia, and India each could also feed many times their own populations. But to do so would require a shift to laissez faire capitalism—a condition not likely to be accepted by any of the existing governments; certainly not by the communists or socialists. As Albert Jay Nock has repeatedly warned—the deadliest enemy of the free and self-sufficient individual is the State.

Socialist misuse of capital is in sharp contrast to its efficient use under free enterprise. Russia was the leading exporter of food before the revolution, but today cannot feed herself. In desperation the Soviets have allotted 31 per cent of available capital to agriculture in contrast to only 4 per cent in the United States. But the Soviet farmer remains only one-tenth as productive as the American farmer, due to lack of proper incentives.

Since all individuals on earth have different and ever-changing priorities, the coercively imposed priorities of governments and planners can only act against the interests of individuals. Governments tend to oppose or dissipate capital formation by controlling economic activity and by redistributing income. As we have seen, this can have serious consequences for the carrying capacity of the land, resulting in starvation in the marginal economies.

Intellectual planners and environmentalists picture themselves as guardian angels, protecting the land against ravage by irresponsible entrepreneurs bent on profit. But instead of building a beautiful paradise, their coercive methods might, in the long run, produce the primitive hell of Cambodia. As was said by the seventeenth-century philosopher Blaise Pascal: "Man is neither angel nor brute, and the unfortunate thing is that he who would act the angel acts the brute."

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The Planned Economy in Georgia: 1732-1752

BRIAN SUMMERS

THOSE who are ignorant of history often make the same mistakes that plagued their forebears. A case in point is government economic planning—the planned economy. Today the planned economy is touted as a brilliant new idea, while history books are filled with the unfortunate results of previous planned economies.

The American colonial period offers several classic examples. The first British settlements, Jamestown and Plymouth, were founded on collectivist principles, with the settlers being clothed and fed out of common stores. Since workers received the same rations as idlers, little work was done, and famine killed half the early settlers. Only after the common stores were abandoned, and the colonists were free to engage in private enterprise, did Jamestown and Plymouth prosper.

The founding of Georgia offers another example of the unfortunate results of government economic planning, no matter how well-intentioned the planners may be. In 1732 James Oglethorpe and his partners received a charter from King George II to found Georgia as a haven for debtors and victims of religious persecution, with the trust providing the settlers' passage and supplies for one year. The colony was also to serve as a military buffer between the British in South Carolina and the Spanish in Florida; military duty was required of each settler. The first colonists, led by Oglethorpe, landed in early 1733 and founded the city of Savannah.

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As so often happens, Oglethorpe and his fellow trustees tried to achieve their humanitarian goals through economic regulations. Land use regulations limited individual holdings to 500 acres, with each family receiving a grant of 50 acres. Parcels could not be divided, sold, rented, traded, mortgaged, or willed; they could be inherited only by a son willing to work the land. Otherwise, parcels reverted to the trustees. The unfortunate result of these regulations was that each colonist was shackled to his parcel, without hope of obtaining mortgage capital, and with little incentive to improve or even maintain his land, especially if he didn't have a son.

When the citizens of Hampstead, in 1738, complained that they had been assigned infertile pine barren, their petition was considered in Oglethorpe's London home:

"He said he knew the land at Hampstead perfectly well, and it was indeed most of it pine barren, but with pains might be rendered very fruitful as other pine land had been rendered by others; that if these people were humoured in this, there would not be a man in the Colony but would desire to remove to better land, who yet have at present no thoughts of it. That the disorder this would occasion in the Colony is unexpressible. That we ought to consider that if these men were allowed to remove to a new land, they would expect a new allowance of provision for a year, which we are not in a condition to give, and the same would be expected by others."[1]

The combined policies of welfarism, collectivism, and land use regulation stifled the settlers' initiative. Captain Pury reported to the trustees on his return from Georgia in 1733: "There being many lazy fellows in the number, and others not able to work, those who work stoutly think it unreasonable the others should enjoy the fruits of their labor, and when the land is cleared, have an equal share and chance when lots are cast for determining each person's division."[2]

Land use control was only one thread of a web of regulation. The "Rules for the year 1735" are a good example of the trustees' penchant for detailed planning:

"The Trustees intend this year to lay out a county, and build a new town in Georgia.

"They will give to such persons as they send upon the charity, To every man, a watch-coat; a musket and bayonet; a hatchet; a hammer; a handsaw; a shod shovel or spade; a broad hoe; a narrow hoe; a gimlet; a drawing knife; an iron pot, and a

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[1] Daniel J. Boorstin, *The Americans: The Colonial Experience* (Vintage Books, New York, 1964) pp. 89-90.

[2] *Ibid.*, p. 90.

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pair of pot-hooks; a frying pan; and a public grindstone to each ward or village. Each working man will have for his maintenance in the colony for one year (to be delivered in such proportions, and at such times as the Trust shall think proper) 312 lbs. of beef or pork; 104 lbs. of rice; 104 lbs. of Indian corn or peas; 104 lbs. of flour; 1 pint of strong beer a day to a man when he works and not otherwise; 52 quarts of molasses for brewing beer; 16 lbs. of cheese; 12 lbs. of butter; 8 oz. of spice; 12 lbs. of sugar; 4 gallons of vinegar; 24 lbs. of salt; 12 quarts of lamp oil, and 1 lb. spun cotton; 12 lbs. of soap."[3]

In case anyone doubted the wisdom of these plans, the trustees unanimously declared in July 1735: "The Board will always do what is right, and the people should have confidence in us."[4]

The man in charge of doling out provisions, Thomas Causton, had almost life and death power over the settlers. As the trustees' agent he promptly announced that the colonists "had neither lands, rights or possessions; that the trustees gave and that the trustees could freely take away."[5] Naturally, the pressures on Causton and his opportunities for personal gain were enormous, and he was soon accused of bribery, profiteering, and short rationing.

James Oglethorpe

The regulations even extended into the moral realm. In 1735 the Board declared that "no Rum, Brandies, Spirits, or Strong Waters" could be imported, that such liquor be destroyed, and that the sale of liquor was illegal. The prohibition on rum imports crippled trade with the West Indies, a leading source of rum and an important market for Georgia lumber.

Perhaps the most fantastic of the trustees' plans was the cultivation of silk. The trustees tried to encourage silk production with a guaranteed minimum price and

[3] *Ibid.*, p. 87.
[4] *Ibid.*, p. 88.
[5] *Ibid.*, p. 87.

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bounties for silk delivered in England. In addition, each settler was required to plant at least 50 white mulberry trees (the silkworms' main diet) on every 50 acres; settlers with 500 acres had to plant at least 2,000 trees. When the trustees finally permitted a representative assembly in 1751, no one could become a representative who did not have at least 100 white mulberry trees on every 50 acres; no one could become a deputy who did not produce at least 15 pounds of silk on every 50 acres and who did not have at least one female member of his family instructing others in silk reeling.

The main flaw in this scheme was that the silkworms didn't like Georgia and proved it by dying in droves. In May 1742 alone nearly half the silkworms in Savannah died. The production of silk limped along until the American Revolution, when the silk factory was converted into a ballroom.

Gradually, under intense presssure from the colonists, the trustees abandoned their plans. In 1738 they permitted daughters to inherit land; in 1739 they allowed settlers to will their parcels; in 1740 they permitted leases; in 1741 the maximum holding was increased from 500 to 2,000 acres; in 1742 prohibition was repealed. Finally, in 1752, a year before their 21-year charter was to expire, the trustees returned the charter to the Crown.

But the damage had been done. It was estimated in 1740 that as many as five-sixths of the settlers had fled the colony. "The poor inhabitants of Georgia," one settler lamented, "are scattered over the face of the earth; her plantations a wild; her towns a desert; her villages in rubbish; her improvements a by-word, and her liberties a jest; an object of pity to friends, and of insult, contempt and ridicule to enemies."[6]

The end of economic planning brought prosperity to Georgia. By 1775, the population had increased eight-fold compared with 1752; imports had increased eight-fold and exports thirty-four-fold compared with 1753.[7]

There are two lessons to be learned from the Georgia planned economy. First, government economic planning, no matter how well-intentioned, is not a new idea, but has been tried and proved a disaster. Second, the Georgia settlers voted with their feet by escaping to neighboring colonies, much as our forebears escaped European dictatorship and our contemporaries escape the taxes and regulations of New York City. If the entire United States becomes a planned economy, where will the victims go?

[6] *Ibid.*, p. 95.

[7] *Encyclopedia Britannica* (1906 ed.), Vol. X, p. 394.

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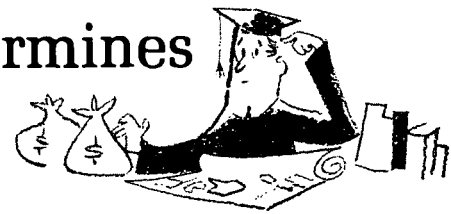
What Determines the Value of Money?



HENRY HAZLITT

WE CANNOT FULLY UNDERSTAND the present American and world inflations, and the consequences to which they are likely to lead, unless we fully understand the causes that determine the purchasing power of money. Perhaps the greatest obstacle to this understanding today is the continued prevalence of an old but false theory.

The strict quantity theory of money and its "equation of exchange" have dominated and distorted the thinking of even some of the most respected monetary economists. A striking illustration is Bresciani-Turroni's discussion in his otherwise admirable history and analysis of the German hyperinflation of 1920 to 1923—*The Economics of Inflation* (1937).

Bresciani-Turroni treats the equation of exchange as an inescapable axiom. In his version it is not MV = PT, but "MV = p1a + p2b + p3c ... where M is the quantity of money issued, V the velocity of circulation, a, b, c, ... the quantities of goods exchanged and p1, p2, p3 ... the respective prices."

When he finds that in the late stages of the German inflation (and in the late stages of practically all other hyperinflations) prices of goods did not rise in proportion to the increase in the quantity of money but at a far faster rate, he assumes that this *must* have been—that it could *only* have been—be-

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cause the "velocity of circulation" increased sufficiently to account for the discrepancy.

His method of arriving at the supposed increase in the velocity of circulation is as follows. He first assigns the presumed velocity of circulation of money in Germany in 1913 an arbitrary base rate of 1. He then compares, for each year or month after the inflation began, the number of times the German money stock was increased with the number of times that wholesale or retail prices increased. He then divides the price increase by the money-stock increase, and assumes that the quotient must represent the increase in the velocity of circulation.

For example, at the end of 1922 the currency circulation of Germany was 213 times greater than in 1913. Wholesale prices were 1,475 times greater. The cost of living was 685 times greater. Therefore, he concludes, in 1922 the velocity of circulation in wholesale trade must have increased 6.92 times and in retail trade 3.21 times.

He applies the same formula to each year from 1914 through 1918, and then to every month of the five years from October 1918 to October 1923. His derived velocity rate begins to go up rapidly from August, 1922. For the last month on his table, October, 1923, he gives the velocity of money in retail trade as 10.43 times greater than in 1913 and in wholesale trade as 17.79 times greater.

These velocity figures, in my opinion, are absurd and impossible. There are several ways of showing why they must be.

We Only Spend Ours Once

Let us begin with the truism, so astonishingly overlooked, that each man or family can only spend its own income once. This means that in a society with a given economic organization and division of labor the *annual* velocity of circulation from year to year cannot change very much.

Bresciani-Turroni nowhere mentions this. He thinks he can explain the huge increases in velocity of circulation that he assumes took place from month to month. He refers, for example, to the fact that some salaried employees received their pay only once every three months. Suppose, then, at the height of the inflation, instead of spending their quarterly pay checks over each quarter, they spent the entire amount in the first few days after the checks were received? Would not this explain the increased money velocity?

There are several things wrong with such an explanation. First, those who were paid quarterly in the Germany of the early 1920's must have been a very small portion

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of the population. Second, it would not be easy to buy three months' supplies of everything in the first day or two. A three-months' family food supply, for example, could not be stored at home or kept fresh there. And if most of these quarterly payments or attempted expenditures fell on the same day, merchants would simply not have the goods in stock to sell.

Third, even if this kind of speed-up happened, it would not lead to a quarterly increase in velocity of circulation or even much of a monthly increase. If a man spends his whole 91-days' income on the first day, he has nothing to spend on any of the next 90 days. The *average* quarterly rate of spending does not change. So if, at the height of the inflation, every family in Germany was paid daily, and spent the whole of each day's income on the day it was received, then it spent one-365th of it every day instead of one-52nd of it every week. The monthly rate did not change much.

The Money Goes for Goods

But there is still another and much more fundamental reason why Bresciani-Turroni's velocity-of-money conclusions are unacceptable. The very phrase, "velocity of circulation," embodies a false concept. Money does not literally "circulate." This is a metaphor. Money is exchanged for goods and services. It is hardly possible to spend money without, by the same action, buying goods. (The borrowing or repayment of money loans constitutes a relatively small part of the total transfer of money, and—so long as it does not increase or decrease the outstanding money stock—does not necessarily have much effect on the exchange-value of the money unit.) Therefore it is hardly possible to speed up the "velocity of circulation" of money without speeding up to an approximately equal extent the velocity of circulation of goods. And if one does this (as Bresciani-Turroni himself admits) the exchange-value of the money unit is not thereby depressed.

But in fact the sale of goods cannot be increased for any prolonged period beyond a very limited amount. (By a "prolonged period" I refer to anything beyond a couple of months.) This is true for the simple reason that the volume of goods for sale just cannot be increased by much in a short time. Bresciani-Turroni's tables show the average velocity of circulation of money to have increased, in the first nine months of 1923, to an average of 8.25 times that of 1913. But this would practically have to mean that the quantity of goods sold in those nine months—and therefore, in effect, the quantity of goods *produced* in those nine months—must have been 8.25 times as great as the

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quantity produced in the corresponding nine months of 1913.

This is not only incredible on its face; it is known to have been untrue of the German year 1923. For by Bresciani-Turroni's own account, production was disorganized by the inflation in 1923, and fell substantially.

Eager Buyers and Sellers

There is still a further factor that the assumption of a hugely increased velocity of money in a hyperinflation overlooks. In order for such an increase to occur, it is not merely necessary that the holders of money should be eager to get rid of it as quickly as possible, but that the sellers of goods should be correspondingly ready to part with their goods for money. But Bresciani-Turroni himself tells us: "The risk of transactions effected by payment in paper marks became so great in the summer of 1923 that many producers and merchants preferred not to sell at all, rather than accept in exchange a money subject to rapid depreciation" (p. 174).

It is instructive to notice that Bresciani-Turroni in the end distrusts his own figures and his own explanation. He carries his own calculations only up to October, 1923, when, as we have seen, he estimates that the average velocity of circulation of money must have been some 14 times as great as in 1913. But he tells us (p. 174) that "In August 1923 the value of the paper money in circulation amounted on some days to scarcely 80 million gold marks" (compared with 6,000 million in 1913). But on his own basis of calculation, as presented in his annual and monthly tables, this would require us to assume that on these days velocity of circulation must have been 75 times as great as the 1913 rates. Moreover, he also tells us that "On November 15th (1923)—on the eve of the cessation of the discount of Treasury bills by the Reichsbank—based on the *official* value of the gold mark (six hundred billion paper marks), the total value of the notes of the Reichsbank in circulation was 154.7 million gold marks. But based on the exchange rate of the paper mark in New York the total value was as low as 97.4 million gold marks."

So, based on the official value of the gold mark, Bresciani-Turroni would have had to conclude that the velocity of circulation must have increased about 39 times over 1913, and based on the paper mark exchange rate in New York, 62 times over 1913.

He draws no such conclusion and cites neither figure. Instead, he completely shifts his explanation of the decline in value of the paper mark. He then decides that "the

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increase in the velocity of circulation . . . does not completely explain the very great reduction of the total real value of the paper money" (p. 173), "for the place of the paper mark was taken by foreign exchange" (p. 174) and the return of metallic money to circulation.

The "Cash Holdings" Approach

I should like to add here that I not only regard an increase in the "velocity of circulation" as a totally false explanation of a more rapid rise in prices than in the quantity of outstanding money in a hyperinflation, but that I consider an alternative explanation adopted by a number of economists—the "cash holdings" or "cash balance approach"—as also quite inadequate, especially in certain formulations.

Some economists formulate the "cash holdings" approach as follows: At the beginning of an inflation, prices generally do not rise as fast as the quantity of money is increased, because people think that prices have risen to unsustainable levels and will soon fall back to "normal." They hold off many purchases and add to their "cash holdings." This in itself keeps prices from rising as much as the quantity of money has been increased. But when people finally come to fear that the inflation is going to be prolonged, and that the rise of prices may go on indefinitely, they begin to buy in advance. They pull down their "cash holdings." It is this action that increases the rate at which prices begin to rise.

There are two major defects in this explanation. One is that, even if otherwise correct, it would account only for a relatively small change in prices compared with the rate of monetary increase. Suppose people normally kept as an average cash balance the equivalent of 10 per cent of their annual incomes—or roughly enough to spend over the next 36 days. If, in an inflation, they were willing to let their cash balances fall even to zero, this would only add some 10 or 11 per cent to the total "active" money stock. It could not account for the almost incredible fall in the purchasing power of the monetary unit, when compared even with the increase in the money stock, that does occur in a hyperinflation.

The other major defect in the "cash holdings" approach is that, no matter how much or often individuals decide to spend, the *average* cash holdings of *all* individuals in the country *cannot* be reduced! If a country has a population of approximately 200 million, and the total money supply is $700 billion (counting currency in the hands of the public, plus both demand and time bank deposits), then the average cash holding of each individual must be $3,500. The

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money must always be held by *someone*. What Peter spends, Paul receives. If half the people in the country, by increasing their spending, reduce their cash holdings by an average of $1,000 each, the other half must increase their cash holdings by the same average amount.

The Subjective Value of Money

What, then, *is* the basic explanation for the value of money, and for changes in that value?

It is the same as the explanation for the value of anything else. It is the subjective valuation that each of us puts on it. The objective purchasing power or exchange-value of the monetary unit is derived from the composite of these subjective valuations. It is not, however, merely a physical or arithmetical composite of these individual subjective valuations. Individual valuations are themselves greatly influenced by what each of us finds to be the market or "social" value. Just as hydrogen and oxygen may combine to form a substance—water—that seems to bear little resemblance to either, so the social or market valuation of money as well as other things is akin to a sort of chemical rather than arithmetical combination of individual valuations.

All valuation begins in the minds of individuals. We are accustomed to saying that market value is determined by supply and demand, and this is true of money as of other commodities. But we should be careful not to interpret either "supply" or "demand" in purely physical terms, but rather in psychological terms. "Demand" rises when people want something more than they did before. It falls when they want it less. "Supply" is more often thought of in a purely physical sense; but as an economic term it also refers to psychic factors. It may vary with price. At a higher price producers may make more of a commodity, or be ready to offer more of the existing stock for sale.

A Mathematical Delusion

When it comes to money, economists have been too prone to explain value in purely physical or mathematic terms. Hence the strange vogue of the rigid proportional quantity theory of money, of the algebraic "equation of exchange," and of the alleged determining role played by the "velocity of circulation" of money.

What is overlooked is that the "equation of exchange" is a mathematical delusion. It is not an equation, as imagined, with money on the left side and goods on the right. There is no meaningful way in which all goods and services can be added to each other except in terms of their money prices. There is no meaningful way, for example,

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in which a pound of gold watches, a dozen square yards of cotton, a 10-room house, and a ton of sand can be added together except in terms of their individual prices in *money*. What we are adding is the amount of money required to buy them. Therefore the product of the equation of exchange, on each side, is a *sum of money*. These sums are equal because they are *identical*. The equation merely asserts that what is *paid* is equal to what is *received*. Neither the quantity theory nor the equation of exchange contain any proof of causation.[1] And the number of times that a unit of money changes hands has no necessary connection with the "level" of prices.

Confuses Cause and Effect

What is called the "cash balance" approach is less fallacious than the mechanical quantity theory of money. It does contain an element of truth, but in some formulations it confuses cause and effect. It is true that when people think that the value of money is going to rise — in other words, when they think commodity prices are going to decline—they tend to spend less money immediately. And when they think the value of money is going to fall—that is, that commodity prices are going to rise—they tend to spend more money immediately. But the "cash balance" approach puts too much emphasis on a physical act and too little on the subjective change of valuation that prompts the act. The value of money does not decline because people try to speed up their spending; they speed up their spending because they think the purchasing power of their money is going to decline.

We can understand this better if we consider the purchase and sale of shares on the stock exchange. Suppose during a day's session American Steel publishes an unexpectedly favorable quarterly earnings report, that 10,000 shares are traded in, and that the price rises from 30 to 40. The price has not risen because M, N, and O have bought 10,000 shares from A, B, and C. After all, as many shares have been sold as bought. The price rises because both buyers and sellers now estimate the value of American Steel shares higher than they did before. Suppose, again, that National Motors closes at 35 on Monday, that after the close the directors unexpectedly fail to declare the regular dividend, and that the stock opens Tuesday morning at 25. This sort of thing happens frequently. There have been meanwhile no sales on which to blame the decline. The stock has fallen in price simply because both

[1] For an elaboration of this analysis, see Benjamin M. Anderson, Jr., *The Value of Money* (New York: Richard R. Smith, 1917, 1936) Chap. XIII.

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buyers and sellers now put a lower estimate on it. This is precisely what happens with the value of money. It is changes in value estimates that count, not changes in cash balances.

And this is the explanation why, in the late stages of a hyperinflation, prices start to soar far faster than the supply of money is increased and even far faster than it can be increased. Nearly everybody is convinced that the inflation is going to go on; that the printing of paper money will be more and more accelerated; that prices will rise at a faster and faster rate. They want to exchange their money for almost anything else they can get. But finally, holders of goods refuse to accept that money on any terms.

Thus, every inflation must eventually either be ended by government or it must "self-destruct"—but not until after it has done untold harm.

IDEAS ON LIBERTY

Welfarism and Inflation

EVEN THE NOBLEST politicians and civil servants can no longer be expected to resist the public clamor for social benefits and welfare. The political pressure that is brought to bear on democratic governments is rooted in the popular ideology of government welfare and economic redistribution. It inevitably leads to a large number of spending programs that place heavy burdens on the public treasury. By popular demand, weak administrations seeking to prolong their power embark upon massive spending and inflating in order to build a "new society" or provide a "better deal." The people are convinced that government spending can give them full employment, prosperity, and economic growth. When the results fall far short of expectations, new programs are demanded and more government spending is initiated. When social and economic conditions grow even worse, the disappointments breed more radicalism, cynicism, nihilism, and above all, bitter social and economic conflict. And all along, the enormous increase of taxes, chronic budget deficits and rampant inflation.

HANS F. SENNHOLZ, *Inflation, or Gold Standard?*

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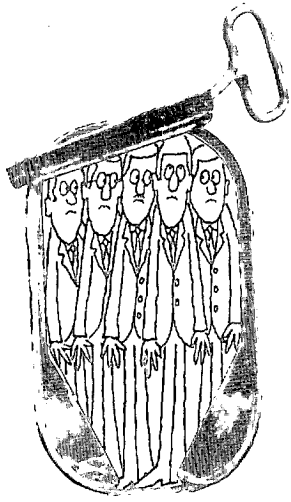
BEHAVIORAL LAW

JOAN MARIE LEONARD



BEHAVIORAL LAW is the legal justification for the concentration camp.

Any tyranny in its early stages or milder forms is still the same tyranny. Once accepted in principle, it can be carried to extremes with little contention. The idea has already been accepted. Embryos have a way of growing. The first behavioral law is the ruination of all law, justifying and giving impetus to all succeeding injustices.

Behavioral law is that body of laws that prescribes, controls or inhibits behavior that is in itself non-aggressive, but deemed unacceptable by governmental powers. It is thus distinguished from those laws we have duly constituted to protect ourselves—our individual selves and possessions—from predatory, aggressive actions.

Behavioral laws are mechanistic—materialistic. They treat people as manipulative dummies who can and will (always the inherent threat) be shaped by external forces, forces outside themselves.

This body of law is sometimes described as "paternalistic." But what father supports his children through their lifetimes with money taken from all the other families in the neighborhood?

It is sometimes referred to as Big Brotherliness, which rather appropriately suggests raising Cain.

It is sometimes called "playing God" with people's lives, but to the contrary, it effectively denies the choices provided by Creation

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through which we can freely fashion ourselves as individuals.

We come equipped to fully experience life, not avoid it. We see, hear, taste, smell, feel, think, learn and choose—all with results in various gradations of good and bad in our own judgment. We don't come guaranteed safe, clean, smart, good or comfortable. We stumble. We fall. We bleed. We ache. We blister. We know both tears and laughter, aversion and attraction, ease and disease. We hurt as well as help ourselves—and others. We give off pollutants. We're slippery when wet. In brief, our little packages of stuff would never have passed government standards. Under the present legal regalia, it's something of a wonder that we're allowed to be born. But once we are, behavioral law takes over.

Self-Reliance Abandoned

Our laws reveal us to be a society whose members call themselves free but turn everywhere for relief from being their self-controlled, experiencing, developing selves. The effect is the stifling of life, the blockage of progress, the numbing of the individual consciousness—each man's capacity for the self-directed creation of himself and his world.

Life that is circumscribed by laws is life that has been taken away. The only world that's completely clean and safe would be one that's uninhabited—and that seems to be where today's legalistic thinking would lead us. Without any rampage of regulation, however, the populous world of today became far cleaner, safer, healthier, and more comfortable than the cold, dank, sooty, plague-ridden, garbage-strewn centuries that befouled our pre-industrial American era.

And it is only through *living* that we will find ways to make it a still cleaner, safer, more comfortable world—living that is progressively intensified through the willing exchanges of energy in an uncontrolled market.

We never stopped eating because of messy kitchens. We developed indoor plumbing, hot water, mops, sponges, soaps, cleansers, cleaners, uncloggers, polishes, scouring pads, waxes, ventilating fans, self-cleaning units, prepared foods, refrigeration, freezers, automatic ranges, stick-free pans, electrical appliances, food keepers, automatic dishwashers, compactors, garbage disposals, insect killers, air fresheners, washable paints and papers, modern floor coverings, plastics, impervious counter surfaces, treated wood, paper disposables, and all the rest. All through choice in the market, not through force by law.

On the other hand, the effort to forcibly alter behavior often has a

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reverse effect to which we seemingly remain as unconscious as we are to the multiplied, magnified benefits of willing exchange in the market.

In the current safety mania, a playground staircase was thoroughly enclosed by vertical bars. The children simply ignored the stairway to nowhere (some bureaucrat's idea of fun) and gleefully climbed the perilously steep fort-like safety barrier, demonstrating the danger and futility in most behavioral restrictions. Outside the school, traffic is slowed to 15 miles an hour as the children learn the world will slow down for their careless amblings, dangerously dulling their consciousness of danger on the street and the constant need of alertness.

How often our aims at providing safety result in hazards, just as our intentions to provide security increase insecurity; our aims at employment end in unemployment; our goal of prosperity results in impoverishment; our "control" of crime stimulates criminal activity; the goal of education evolves into a system of disruption and enforced opinion; environmental goals lead to the abandonment or neglect of those advances that have elevated us above the filth, drudgery, and disease of yesterday.

How often? As often as we turn to forces outside of self-responsibility for solutions to problems of everyday living. In all cases, as with that dangerous safety barrier, we are actually contriving extraneous, artificial conditions for ourselves to fail in.

Conflicting Claims

Behavioral law is a system of legislated desires, all superimposed on each other and in natural, inevitable conflict. It is the process of creating conflict which previously didn't exist and then using that fictitious, invented disharmony as the basis for extending governmental powers. Justice, instead of hanging in stable, impartial balance, is weighted first one way, then another, as the law favors first one group and then another. Such is the perpetual motion of the socialist machine, marking time, accomplishing nothing but injustice, defeating first the purpose of one group, then another—every action self-defeating.

Union members who force higher wages not only artificially increase their own cost of living, but subsidize the foreign competition they complain about, pushing the price for the product of their labor out of market range.

While clamoring for more jobs for the poor and handicapped, we establish laws that make it economically unsound and unfeasible for those with lesser skills to be employed.

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Behavioral laws not only fail to help the poor, they create the poor. They don't just make it difficult to help the handicapped, they reduce able people to the ranks of the disabled.

In a free market, handicaps disappear. Call it a miracle—an open market makes handicapped people able. It employs those who would not be employed under governmental wage standards. It invites all effort into the area of profitability.

An unregulated market, in fact, would give us cause to ask ourselves—who are the handicapped—who are the blind—who are the mentally retarded? We are all handicapped in some ways—blind to different things—mentally unaware in different areas. Incompleteness is the human condition—and the passage to all possibility.

Through an open market, all of us see by using the sight of others. They show us what they see by what they *do*. The unrestrained market attacks the blindness of everyone. It brings into visibility and use things that weren't there before. It extends our minds and abilities through the minds and abilities of others. It created the world we all live in.

To stop people from doing things is to create blindness and handicaps for everyone. Every effort to control the market is such a handicap. In reducing the strength of others, we reduce our strength. If we let people do things, we can and will improve our own vision, understanding, and capability to shape the world from our own individual worlds.

The Power of the Market

Through the market and to the degree that it is unregulated, we draw power from each other. That is the strength of America—past, present and future—the power of the American idea. Vision, intelligence, and capability multiplied again and again by the efforts of people freely doing what they do best. Open competition assures the most efficient effort is that which most fully succeeds. All are advancing each other while effecting the material, intellectual and spiritual uplift of the whole world.

But whenever one imposes his will on the behavior of another, he is the blind leading the blind. The one is blind to his lack of ability—the other to his capability. As we have lost consciousness of our own blind spots, handicaps, and weaknesses, we begin to live with bigger and bigger lies, all stemming from the falseness of believing change can come from sources outside of ourselves. We are so convinced our betterment can be externally regulated, we depend on pills and psychiatrists for distributing peace of mind and sue our doctors if we get a sneeze.

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Our behavioral approach to law has filled our prisons to overflowing with those who have committed no aggressive act toward anyone, including those who want to set their own price on their own services. Instead of stopping real crime, we create crimes and encourage criminals, establishing underworld networks with legally protected monopolies on traffic in behavior we officially disapprove (drugs, gambling, prostitution, and so on). Behavioral laws thus protect and enrich criminal actions while arresting, penalizing, and punishing disapproved behavior.

By tending to make everyone guilty of something, behavioral laws effectively make no one guilty of anything—the dangerous are turned loose, the peaceable incarcerated. We have lost consciousness of the fact that the only justification for detention is the protection of society from violence, not punishment, rehabilitation, education, recreation or reform.

To what extent have we lost consciousness of what the law should be and do and allowed it to control our behavior? The State now decides whether and when to disconnect your respirator. It can take away your children if it considers you unfit as a parent. It brings criminal charges against you for not sending your children to its schools.

You go to the government for permission to marry, to work, to start a business, to drive a car, to build a house. The government dictates the standards for your housing down to the number of electrical outlets on every wall. It establishes the rate you have to be capable of earning before you can get a job, and how much of your earnings you can keep.

It regulates, indirectly when not directly, the price of every chop in your refrigerator, every can on your shelf. It decides what television stations you can watch, what radio stations you can listen to.

It slaps you in the budget for your smoking or drinking, decides what toys your children will be allowed to play with, what medicines you can take, what doctors you can see, what medical services you can have. While outlawing drugs on one hand, it can force drugs upon you when it deems it advisable. It can commit you to a mental hospital and authorize disposition of your property.

It requires detailed reports on all your business and personal affairs. It expects the average citizen to understand and comply with tax forms no two lawyers can agree on and that appear to be written by a tribe of drunken chimpanzees cavorting over an acre of broken typewriter keys.

It pries into your expenditures for

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food, clothing, shelter, travel, investments, contributions, insurance, medical bills, repairs, operating costs—all to decide how *un*equal your tax rate should be in a country that is said to believe in equality before the law, each treated alike.

It takes your money to use for the welfare of others. It can send your sons, brothers, and fathers off to wars they're not allowed to win.

But now, if you can believe the newspapers, we're going to draw the line and say "No, you can't do that. It's an invasion of privacy." And what is it that we finally consider an intrusion of private rights: The official use of electronic devices in the apprehension of criminals.

It would be spectacularly amusing if it weren't so tragic. But the alternative to behavioral law is life itself. Life proceeding in all its ways. Seeking in all directions. Advancing through as many visions of living as there are people whose peaceable actions are unrestrained.

Limitation of Government

Restoring government to its original role of restraining only violence and preserving the peace is probably as simple and as difficult as reserving judgment in regard to the behavior of others.

If we would relax our grip on certainties, we wouldn't be living with so many lies in the form of laws. Every judgment we make forms a boundary around our consciousness unless held lightly and easily released in the light of expanding awareness. A law is just an opinion that becomes a wall—and is as hard to remove.

One way to release our hold on certainties is to consider the differences in individual perceptions of the same event. One person goes to a ballet and enjoys a musical experience. A football coach attends and sees a new backfield formation choreographed before his eyes. One scientist throws up his hands in despair at the failure of an experiment while another discovers in the unexpected result a new material or process—a new truth.

There are many worlds in one. We share in all these worlds as we allow for the flowering of individual perception and consciousness. The many worlds of our existence are all virtually undiscovered. Everyone is a world in himself.

If one person resolved upon a wage he was entitled to in his opinion, and tried to force an employer to hire him at that wage and under his conditions, he would be considered demented. When such is the privilege granted large groups of workers under the law, the government is deranged.

Government grows out of attitudes, and the only attitudes each of us has to work with are his

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own. Work on the attitudes of others and you're back in the behavioral boat, advancing behaviorism as a way of life. If your own behavior is extended into law, on what basis will you object to it?

The world is as large, flexible, expandable and full of truth as all of our individual perceptions extend it. Or it is as constricted, solid, dead, and falsified as the perceptions of the blind, misguided few who would forcibly adjust it to their own limited vision.

Emerson said if we could see and feel all the things around us, we'd be so squashed we couldn't move. He suggests different levels of life around us, but even on one level, there are an infinite number of worlds of perception—as many as there are individuals doing their own thinking. All of these worlds are open to us when government keeps us free from the destructiveness of others, not the least of which is the infliction of behavioral opinion.

IDEAS ON LIBERTY

Liberty—A Reward to Be Earned

IT FOLLOWS, from what has been stated, that it is a great and dangerous error to suppose that all people are equally entitled to liberty. It is a reward to be earned, not a blessing to be gratuitously lavished on all alike;—a reward reserved for the intelligent, the patriotic, the virtuous and deserving;—and not a boon to be bestowed on a people too ignorant, degraded and vicious, to be capable either of appreciating or of enjoying it. Nor is it any disparagement to liberty, that such is, and ought to be the case. On the contrary its greatest praise,—its proudest distinction is, that an all-wise Providence has reserved it, as the noblest and highest reward for the development of our faculties, moral and intellectual. A reward more appropriate than liberty could not be conferred on the deserving;—nor a punishment inflicted on the undeserving more just, than to be subject to lawless and despotic rule. This dispensation seems to be the result of some fixed law;—and every effort to disturb or defeat it, by attempting to elevate a people in the scale of liberty, above the point to which they are entitled to rise, must ever prove abortive, and end in disappointment.

JOHN C. CALHOUN, *A Disquisition on Government*

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2 CONCEPTS OF LIBERTY

J.B. KIZER

ISAIAH BERLIN, in his *Two Concepts of Liberty,* discusses a question which is central to most arguments between libertarians and socialists—between "voluntarists" and "coercionists." The question is, what do we mean by freedom? Berlin points out that socialists accept a definition of freedom which he calls positive liberty, while libertarians assert that freedom is really negative liberty. Now positive liberty is the "freedom to" have such things as employment, respect, and the like. Negative liberty is "freedom from" restraint. Positive liberty is equivalent to what libertarians might refer to as power, that is, libertarians believe a given man is free to earn a million dollars per year even though it may not be in his power to do so, simply because he cannot provide the services required.

But, as Berlin points out, the deceptively phrased "positive liberty" has some nasty consequences. One of them is that since positive liberty is unrelated to freedom as we usually understand it, then being "liberated" (and we often find this usage of the word in current liberation movements) is being forced to do something against our will because someone else thinks it is good. This encourages confusion in the discussion of freedom. To call negative liberty "freedom" and positive liberty "power" is to make a discrimination which is fundamental. To call them both liberty, as coercionists often do when it suits their argument, leads to confusion.

For example, if legislators believe

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that men ought to be taught only by those with a Ph.D., then they might pass a law that only Ph.D.'s be allowed to teach. The coercionists would not consider this a limitation on people's freedom to choose their teachers because those who accept the concept of positive liberty feel that some men may act irrationally and, therefore, must be coerced to be "free," meaning by that to do what they should do, which is always choose a Ph.D. for a teacher.

Now most people can see this conception of liberty stands totally opposed to the common sense notion of freedom. Why, then, do some philosophers hold this position? Berlin explains this. He says that it is an extension of the so-called mechanico-rationalist approach to life. Stimulated by the success of scientists or natural philosophers in finding the laws of the universe in the 17th and 18th centuries, the social philosophers of that age began to believe that they could find the social laws by which men must rationally act, the social "system of the world" which would correspond to the Newtonian *Principia* (subtitled *The System of the World*). This led to the belief that those who do not accept their system must be coerced into accepting it, as it is the "rational" social system.

Libertarians, those who accept the Berlin concept of "negative liberty," know, though, that human values may not all be compatible and, in principle, may not be capable of being harmoniously realized in one way of life. That is, people are inherently different so they may, for their happiness, need and demand a different lifestyle from the majority of their neighbors. Thus the libertarian is, of necessity, a pluralist. He tolerates different communities with laws of entirely different types. He knows that one cannot homogenize the differences among men or among the differing environments in which man finds himself. Conversely, the coercionist is, of necessity, a social monist and will not tolerate social differences.

It is interesting that the libertarians and conservatives, the social pluralists, are the ones who are likely to encourage social experiment by allowing community differences which might actually lead to progress in the understanding of the relations among men. It is the monists, on the other hand, who constantly proclaim themselves in favor of progress and sometimes (as Marx did) proclaim that their social system is scientific; these are the most anti-progressive and anti-scientific in the sense that they oppose any social experiment which might lead to real progress.

Libertarians realize that there is

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no perfect social system. There never will be a final answer as to how everyone should behave and, because of this realization, they refuse to coerce others to hold to their beliefs.

The only unfortunate aspect of Berlin's analysis, and in this Berlin is merely following tradition, is that libertarians have again lost the semantic battle of connotation as they did when the socialists usurped the word "liberal." "Positive liberty," which is actually coercion, sounds so much better than "negative liberty," which is really freedom. This minor cavil does not detract from the outstanding contribution to the philosophical meaning of freedom which Berlin makes.

Since individual differences among people demand pluralism if real freedom (Berlin's negative liberty) is to be achieved, it is interesting to note the foresight of the founding fathers. One of the essential ideas behind the founding of this country was that it was to be a federal republic, that is, a nation in which the individual governmental units of the federation agree concerning the general principles of government but retain the right to enact the laws of their choosing, insofar as the details of governmental action are concerned.

IDEAS ON LIBERTY

Authors of Values

FOR IF THE ESSENCE OF MEN is that they are autonomous beings—authors of values, of ends in themselves, the ultimate authority of which consists precisely in the fact that they are willed freely—then nothing is worse than to treat them as if they were not autonomous, but natural objects, played on by causal influences, creatures at the mercy of external stimuli, whose choices can be manipulated by their rulers, whether by threats of force or offers of rewards.

ISAIAH BERLIN

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CHILE: The Balanced View

LONG before the Marxist Salvador Allende took over Chile as a minority President in 1970, Chilean economists were studying on an exchange program at the University of Chicago. So, when Professor Milton Friedman visited Chile last year—the second year of the military junta that succeeded the deposition of Allende, who had tried to impose socialism on his country by shifty extra-legal means—he had a ready audience. Friedman's advice to the junta was to use "shock treatment" to overcome the inflation, which had been running at 700 per cent. He urged the generals to get their government out of the business of spending money that had to be extorted from the people either by taxes or inflation. Friedman's three lectures, published in Spanish, are a popular staple in the local bookstores.

But the "Chicago school" had had the ears of the junta government before Friedman had arrived personally on the scene. So pervasive have been the free market theories of Frank Knight, Henry Simon and

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Milton Friedman in Chile that economists in general are referred to in fashionable Santiago circles as "Chicago boys." Some of the economists (those who have studied in the U.S. at Columbia or Harvard) resist the term. Whether they went to Chicago or M.I.T., however, they all acknowledge that the Chilean economy under Allende's Statism had been a complete disaster.

Communists, since the deposition and death of Allende, have been assiduous in their attempt to make a martyr out of him. The myth goes that General Pinochet, the head of the Chilean army, and his junta colleagues from the navy, the air force and the carbineros, or national police, snuffed out a promising experiment in trying to take a peaceful road to socialism. There was to be a "revolution within the form" of democracy. Allende, so the Communists will tell you, was on his way toward success without interfering with freedom of the press or the right of pluralistic interests to support their own views in the give-and-take of parliamentary battle.

The truth, as a remarkable book called *Chile: The Balanced View*, edited by Francisco Orrego Vicuna (University of Chile Institute of International Studies, Santiago, P.O. Box 14187, Section 21) makes plain, is that Allende dug his own grave. *Chile: The Balanced View* is not the work of partisans. Published in both Spanish and English, it consists largely of articles by such respected U.S. and British scholars and journalists as Robert Moss of the London *Economist*, Paul Sigmund of Princeton University, Edward Glab of the University of Texas, William Ratliff of the Stanford Hoover Institution, James Theberge of Georgetown University and Markos J. Mamalakis of the University of Wisconsin.

A Radical Plan

What happened in Chile was the inevitable consequence of Allende's attempt to ruin the middle classes as a prelude to bringing off a radical socialist *golpe*. When he assumed power Allende had a foreign exchange balance in the Treasury. With this balance as his cushion, Allende decided he had time to build an absolute majority (he had been elected in a parliamentary run-off after achieving a thirty-five per cent popular vote) by subsidizing consumption throughout a wide stratum of the people who would be called "shirtless ones" in the neighboring Argentine. By arbitrarily defining any company that had $500,000 capitalization as a "monopoly," Allende moved boldly to take over practically the whole of Chilean industry. He wiped out unemployment by loading the payrolls of banks and steel com-

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panies and the expropriated mining sector. Wages were raised without regard to productivity. Anaconda and Kennecott, which had been mining copper on a partnership basis with the previous Chilean governments, were told to skedaddle. They would get no money for their property.

The Christian Democratic government of President Eduardo Frei had already started a land "reform" before Allende took power. It had not been a success. But Allende made things much worse by putting peasants into collectives and failing to provide them with such mundane things as guidance, fertilizer, seed and machinery. Once the plantings that had been done under Frei had been exhausted, Chile had little locally grown food. In 1973, the last Allende year, Chile had to import $600,000,000 in grain, meat and other food from abroad.

Wild Inflation

With the payrolls loaded with uneconomic employees at high wages, with the copper miners taking it easy, and with queues lengthening at the markets, Allende found himself in the middle of a rip-roaring inflation. He had told Regis Debray, the French follower of the guerrilla Che Guevara, that his commitment to a "peaceful" revolution was merely tactical, and he had said he was not "President of all the Chileans." His obvious duplicity had caused the Christian Democrats, Chile's big center party, to desert the coalition that had put him in power. When the truckers, most of them small businessmen who owned one or two trucks, struck to forestall their incorporation into a state-owned agency, it really paralyzed the country.

Allende had brought the army into his government, giving it a taste of power. When he refused to punish those responsible for a mutiny of left-wing lower-rank naval officers, and when the news seeped out that the Castroite radicals to the left of Allende's own Popular Unity socialists were about to use their illegal arms caches for a Communist takeover, General Pinochet of the Army, General Leigh of the Air Force, and their opposite numbers in the Navy and the Police, decided that it would be suicidal to let the "democratic" charade go on.

The importance of the articles by Robert Moss, Paul Sigmund and the rest in *Chile: The Balanced View* is that they conclusively demonstrate the widespread unpopularity of Allende's misnamed Popular Unity government. The courts and the parliament had already declared that Allende's tactical moves were illegal. But there was no way of coming to grips by peaceful

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democratic means with the situation when Allende chose to disregard his own courts and legislature.

Since Allende

Chile: The Balanced View needs a sequel to bring things up to date. Unlike the Peruvian generals who want to run their own economy on "planned" lines, the Chilean junta is doing its best to turn things back to individual owners. The Finance Minister, Jorge Cauas, who studied under Arthur Burns at Columbia University, is letting "Chicago boy" thinking dominate much that he is doing. The land seized in the Frei and Allende "reforms" is being sold, in middle-sized chunks, to farmers who are willing to work it. The result has been an agricultural turn-around. Chile now has a surplus of foodstuffs that are being put into processed forms for export. The only food that Chile now imports is grain. With an expendable margin of wines, leather goods and other "non-traditional" exports, Chile's international trade in actual goods and services is now in balance.

The inflation is still high. (Cauas says it runs at 200 per cent.) The reason for this is that the government's Spartan decision to pay such foreign creditors as Anaconda, Kennecott and other mining companies in full for their nationalized properties forces the treasury to print pesos to buy foreign exchange from the Chilean exporters. The paper pesos become internal purchasing power. This monetary basis for the inflation will disappear when the foreign debt has been reduced to manageable proportions.

Cauas doesn't think this day is too far distant. His ideal—which would not wholly please a Chicago economist, not to mention an anarcho-capitalist—is to reduce government participation in the economy to twenty-five per cent, mainly accounted for by the national copper mines and State banking. This is not economic orthodoxy on the Vienna school model. But it is better than the sixty-seven per cent "public-sector" domination that had been saddled on the country by Allende.

The reason why the Communists carry on so unrelentingly about Chile is obvious: they resent any proof that the free market really works.

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▶LAURA: THE LIFE OF LAURA INGALLS WILDER by Donald Zochert. (Chicago: Henry Regnery Company, 1976) 260 pp., $8.95.

Reviewed by Bettina Bien Greaves

THE ORIGINAL EIGHT autobiographical novels in Laura Ingalls Wilder's Little House series were written primarily for children, ages 8-14. They appeared first between 1932 and 1943.[1] Since then, two, going on three, generations of young people have enjoyed these tales of pioneering in the middle west. Boys and girls have laughed at Laura's escapades as a youngster, wept at the tragedies and misfortunes that befell her and her family and rejoiced at her love affair and her marriage to the dashing young Almanzo Wilder. The books have also pleased parents who appreciate their old-fashioned homespun philosophy. Woven throughout all the volumes is the idea that it is "best to be honest and truthful, to make the most of what we have, to be happy with simple pleasures and to be cheerful and have courage when things go wrong." Laura had plenty of opportunity to learn "that life is not always kind, or nice," for in the raw western territory where she and her family pioneered something was always going wrong. Hardships, disappointments and death were no strangers. Laura came to realize that an important part of growing up came in accepting disappointments and tragedies without whimpering.

Most readers of the Little House books have become Laura Ingalls Wilder fans. They truly like the tomboy she portrayed herself to have been. They admire the courage she showed when things went wrong. As a result, many readers have wanted to distinguish the truth in these volumes from the fiction. They have wondered what Laura was really like, whether she really did have all the experiences she described. Many have even traveled to Pepin (Wisconsin), Independence (Kansas), Walnut Grove (Minnesota) and DeSmet (South Dakota), looking for traces of the little houses where she lived. Some of Laura's fans have been almost as persistent as those of Sherlock Holmes. Laura's fans—past, present and future—will be glad, therefore, to know of the new biography about her.

[1] A ninth volume, published since Mrs. Wilder's death, is now included in the "Little House" series. They are all available, in both cloth and paperback editions, from Harper and Row. The titles of the nine volumes are: (1) *Little House in the Big Woods*, (2) *Little House on the Prairie*, (3) *Farmer Boy*, (4) *On the Banks of Plum Creek*, (5) *By the Shores of Silver Lake*, (6) *The Long Winter*, (7) *Little Town on the Prairie*, (8) *These Happy Golden Years*, and (9) *The First Four Years*. These books have also inspired a TV dramatization, the "Little House on the Prairie" series, produced by, and starring, Michael Landon.

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Mr. Zochert has done a remarkable amount of research. He studied Laura's original handwritten notes and manuscripts. He compared available first drafts with the final texts of published books to discover how much they had been edited. He traced clues to be found among her papers, to learn about the people Laura described in her books. He visited the places where she had lived, studied town records and census reports to trace her friends and acquaintances and to learn their real names and destinies. Thus this biography is fully documented and researched. Yet it is smoothly and simply told and reads easily, like one of Laura's own stories. Appendices give the chronology of events in Laura's life, the history of the Little House books and information on how to locate the sites of the little houses themselves. Only the farm house in Mansfield (Missouri), where Laura and Almanzo moved in 1894, still stands—open in season to the public. The locations of the other "Little Houses" are now marked by historical plaques.

Laura's biography reveals, even more vividly than do her children's books, the hardships of pioneering. Biographer Zochert reports on the very discouraging "lost year," edited out of the Little House series, when the Ingalls family, driven from their home on Plum Creek by plagues of grasshoppers two years in a row, retreated eastward and worked at various town jobs. The major part of this biography deals with the years Laura herself wrote about in her children's stories. However, the biographer goes beyond those early years. He carries her life, beyond her first four eventful years of marriage to Almanzo, to their move to Missouri[2] and their long life together on their farm and apple orchard.

Donald Zochert's biography is a worthy tribute to Laura Ingalls Wilder and the many other sturdy pioneers who settled and helped to civilize the vast open spaces of our middle west. Anyone who has read the Little House series will be fascinated. Readers who meet Laura here for the first time will undoubtedly want to read the Little House series themselves and to introduce these children's books to their favorite young people.

[2] Described in *On the Way Home*, published by Harper and Row in 1962, with an introduction by Laura's daughter, Rose Wilder Lane.

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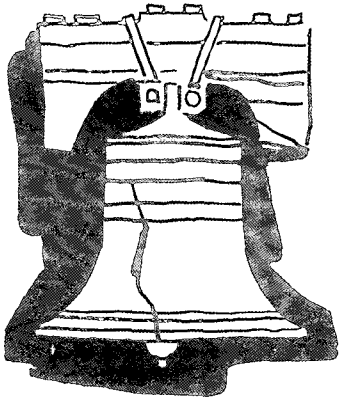

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